

THE CAMBRIDGE
HISTORY OF
LATIN
AMERICA

VOLUME IX
BRAZIL SINCE 1930



EDITED BY LESLIE BETHELL



THE CAMBRIDGE HISTORY OF
LATIN AMERICA

VOLUME IX

Brazil since 1930

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LATIN AMERICA

VOLUME I *Colonial Latin America*

VOLUME II *Colonial Latin America*

VOLUME III *From Independence to c. 1870*

VOLUME IV *c. 1870 to 1930*

VOLUME V *c. 1870 to 1930*

VOLUME VI *Latin America since 1930: Economy, Society and Politics*
Part 1. *Economy and Society*
Part 2. *Politics and Society*

VOLUME VII *Latin America since 1930: Mexico, Central America
and the Caribbean*

VOLUME VIII *Latin America since 1930: Spanish South America*

VOLUME IX *Brazil since 1930*

VOLUME X *Latin America since 1930: Ideas, Culture and Society*

VOLUME XI *Bibliographical Essays*

THE CAMBRIDGE HISTORY OF LATIN AMERICA

VOLUME IX

Brazil since 1930

edited by

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and

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CAMBRIDGE
UNIVERSITY PRESS

CAMBRIDGE UNIVERSITY PRESS
Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo, Delhi

Cambridge University Press
32 Avenue of the Americas, New York, NY 10013-2473, USA
www.cambridge.org
Information on this title: www.cambridge.org/9780521395243

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First published 2008

Printed in the United States of America

A catalog record for this publication is available from the British Library.

Library of Congress Cataloging in Publication Data

Brazil since 1930 / edited by Leslie Bethell.

p. cm. – (Cambridge history of Latin America ; v. 9)

Includes bibliographical references and index.

ISBN 978-0-521-39524-3 (hardback)

- I. Brazil – Politics and government – 20th century. 2. Brazil – Economic conditions –
20th century. 3. Brazil – Social conditions – 20th century. I. Bethell, Leslie.

II. Title. III. Series.

FI410.C1834 VOL. 9 [F2538]

981.06 – dc22 2008029310

ISBN 978-0-521-39524-3 hardback

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GENERAL PREFACE

Since the *Cambridge Modern History* planned by Lord Acton appeared in twelve volumes between 1902 and 1912, multivolume Cambridge Histories, edited by historians of established reputation, with individual chapters written by leading specialists in their fields, have set the highest standards of collaborative international scholarship. The *Cambridge Modern History* was followed by the *Cambridge Ancient History* and the *Cambridge Medieval History*. The *Modern History* was eventually replaced by *The New Cambridge Modern History* in fourteen volumes (1957–1979). And Cambridge Histories of India, China, Japan, Africa, Latin America, Iran, Southeast Asia and Russia as well as various Cambridge Economic Histories and Cambridge Histories of political ideas, religions, philosophy and literature have since been published.

The responsibility for planning and editing a multivolume *Cambridge History of Latin America* was given to Dr. Leslie Bethell, who was at the time (the late 1970s) a Reader in Hispanic American and Brazilian History at University College London, and later (from 1986) professor of Latin American history at the University of London and currently (from 1987) director of the University of London Institute of Latin American Studies.

Since World War II, and particularly since 1960, research and writing on Latin American history developed at an unprecedented rate – in the United States (by Americans in particular, but also by British, European and Latin American historians resident there), in Britain and continental Europe and increasingly in Latin America itself (where a new generation of young professional historians, many of them trained in the United States, Britain and Europe, had begun to emerge). Perspectives changed as political, economic, and social realities in Latin America – and Latin America's role in the world – changed. Methodological innovations and new conceptual models drawn from the social sciences (economics,

political science, historical demography, sociology and anthropology), as well as from other fields of historical research, were increasingly adopted by historians of Latin America.

The *Cambridge History of Latin America* was to be the first large-scale, authoritative survey of Latin America's unique historical experience during the five centuries since the first contacts between the native American peoples and Europeans (and the beginnings of the African trans-Atlantic slave trade) in the late fifteenth and early sixteenth centuries. (Cambridge later published separately a three-volume *Cambridge History of the Native Peoples of the Americas* – North, Middle and South – which gave proper consideration to the evolution of the region's peoples, societies and civilisations in isolation from the rest of the world during several millennia before the arrival of the Europeans. These volumes also give a fuller treatment than the *Cambridge History of Latin America* of the history of the indigenous peoples of Latin America under European colonial rule and during the national period to the present day.)

Latin America was taken to comprise the predominately Spanish- and Portuguese-speaking areas of continental America south of the United States – Mexico, Central America and South America – together with the Spanish-speaking Caribbean (Cuba, Puerto Rico and the Dominican Republic) and, by convention, Haiti. (The vast territories in North America lost to the United States, first by Spain, then by Mexico, by treaty and by war during the first half of the nineteenth century were, for the most part, excluded. Neither the British, French, nor Dutch Caribbean islands nor the Guianas were included, even though Jamaica and Trinidad, for example, had early Hispanic antecedents and were members of the Organization of American States.)

The aim was to produce a high-level synthesis of existing knowledge that would provide historians of Latin America with a solid base for future research, be useful to students of Latin American history and be of interest to historians of other areas of the world. It was also hoped that the *History* would contribute more generally to a deeper understanding of Latin America through its history in the United States, Europe and elsewhere and, not least, to a greater awareness of Latin American history in the countries studied.

Each volume or set of volumes of the *Cambridge History of Latin America* examines a period in the economic, social, political, intellectual and cultural history of Latin America.

Volumes I and II (*Colonial Latin America*), published in 1984, are devoted to the European 'discovery', conquest and settlement of the 'New World', and the history of the Spanish and Portuguese empires in America from the sixteenth to the eighteenth centuries.

Volume III (*From Independence to c. 1870*), published in 1985, examines the breakdown and overthrow of colonial rule throughout Latin America (except in Cuba and Puerto Rico) at the beginning of the nineteenth century, and the economic, social and political history of the independent Spanish American republics and the independent Empire of Brazil during the half-century from c. 1820 to c. 1870.

Volumes IV and V (c. 1870 to 1930), published in 1986, concentrate on what was for most of Latin America a 'Golden Age' of predominantly export-led economic growth as the region became more fully incorporated into the expanding international economy. It was a period of material prosperity (at least for the dominant classes), significant social change (both rural and urban), political stability (with some notable exceptions, such as Mexico during the Revolution), ideological consensus (at least until the 1920s) and notable achievements in intellectual and cultural life.

Volumes VI–X, which (except for volume IX) appeared between 1990 and 1996, are devoted to Latin America since 1930.

Volume VI, published in 1994 in two parts, brings together general essays on major themes in the economic, social and political history of the region: the fourfold increase in population (from 110 to 450 million); the impact of the 1929 World Depression and World War II on the Latin American economies; the second 'Golden Age' of economic growth (1950–1980), this time largely led by ISI (import substitution industrialization), followed by the so-called 'lost decade' of the 1980s; rapid urbanisation (less than 20 percent of Latin America's population was classified as urban in 1930, almost 70 percent in 1990) and urban social change; the transformation of agrarian structures; the development of state organisation and, in the 1980s, the beginnings of 'state shrinkage'; the military in politics; the advance of (as well as the setbacks suffered by) democracy in Latin America; the (few) successes and (many) failures of the Latin American left; the urban working class and urban labour movements; rural mobilisations and rural violence; changes in the economic, social and political role of women and, finally, the persistence of the Catholic church as a major force in political as well as religious and social life throughout the region, as well as the rapidly growing Protestant churches.

Volume VII, published in 1990, is a history of Mexico, the five Central American republics (Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica), Panama and the Panama Canal Zone, the Hispanic Caribbean (Cuba, Puerto Rico and the Dominican Republic) and Haiti.

Volume VIII, published in 1992, is a history of the nine republics of Spanish South America (Argentina, Uruguay, Paraguay, Chile, Peru, Bolivia, Ecuador, Colombia and Venezuela).

Volume X, published in 1996, is the history of ideas and culture in Latin America since c. 1920 (which is for this volume a more appropriate starting point than 1930). It opens with a long chapter – the longest of any in the entire *History* – by Richard Morse that explores the ‘multiverse of identity’ (both national and regional identity) in Brazil and Spanish America from the 1920s to the 1960s through the writings of novelists, essayists, philosophers, historians and sociologists. The rest of the volume consists of separate chapters on Latin American (Spanish American and Brazilian) narrative, poetry, music, art, architecture, radio, television and cinema.

An important feature of the *Cambridge History of Latin America* volumes is the bibliographical essays that accompany each chapter. These essays give special emphasis to books and articles that have appeared since Charles C. Griffin (ed.), *Latin America: A Guide to the Historical Literature* (published for the Conference on Latin American History by the University of Texas Press in 1971). Griffin’s *Guide* was prepared between 1962 and 1969 and included few works published after 1966. All the essays from Volumes I–VIII and X of the *History* – where necessarily revised, expanded and updated (to c. 1992) – together with an essay on Brazil since 1930 written by the editor in advance of the completion of Volume IX, were published in a single volume, Volume XI: *Bibliographical Essays*, in 1995.

The *Cambridge History of Latin America* is being published in Spanish translation (20 volumes, Editorial Crítica, Barcelona), in Chinese translation (10 volumes, Chinese Academy of Social Sciences, Beijing) and in Portuguese translation (10 volumes, Editora da Universidade de São Paulo).

PREFACE TO VOLUME IX

The writing and editing of Volume IX of the *Cambridge History of Latin America* on Brazil since 1930, the final volume of the *History* to be published, has been long delayed for a variety of reasons, not least the appointment of the editor (who was also to be one of the principal authors in this particular volume) as director of the newly established Centre for Brazilian Studies in the University of Oxford, inaugurated in 1997. Only when the future of the Oxford Centre had been secured for a second five-year period (2002–7) was the editor, though reappointed director of the centre for a further five years, able to turn once more to the writing and editing of this volume.

The volume offers a comprehensive history of Brazil in the seventy years from 1930 to the beginning of the twenty-first century, during which Brazil experienced profound economic, social and political change. Brazil's population grew from 35 million to 170 million. The population classified as urban rose from less than 30 percent to more than 80 percent (90 percent in the southeast). GDP grew (at least until 1980, after which there followed two 'lost decades' in terms of economic growth) at an average annual rate of almost 7 percent, one of the fastest rates of growth in the world. A traditional society based largely on agriculture was transformed into a modern urban society with a strong industrial base: the proportion of the economically active population in agriculture and rural activities fell from two-thirds to one-quarter, while in industry it rose from 10 to 20 percent. (At the same time, the proportion of women in the economically active population increased from 10 to 40 percent.) Average per capita income rose six times between 1930 and 1980, though it stagnated in the following two decades. (Brazil, however, remained one of the most unequal societies in the world, with more than a third of the population living in poverty.) Infant mortality fell from 160 to 35 per thousand live births and life expectancy at birth increased from 40 to 70. Illiteracy declined from

more than 60 percent to less than 15 percent. And the level of political participation increased dramatically: fewer than two million Brazilians (less than 10 percent of the adult population) participated in the presidential elections of 1930; almost 95 million voted in the presidential elections in 2002 (82 percent of an electorate of 115 million, based on universal suffrage), making Brazil, at the beginning of the twenty-first century, the third largest democracy in the world.

Volume IX Part One consists of four chapters on politics during the fifteen-year presidency of Getúlio Vargas (1930–1945), the Liberal Republic (1945–1964), the twenty-one-year military dictatorship (1964–1985) and, finally, the transition to, and consolidation of, democracy from the late 1980s, culminating in the two administrations of Fernando Henrique Cardoso (1995–2002) and the election of Luiz Inácio Lula da Silva as president in 2002.

Part Two consists, first, of three chapters on the Brazilian economy: (1) 1930–1980, fifty years of state-led growth, structural change and rising average per-capita incomes; (2) 1980–1994, fifteen years of mediocre growth, stagnant per-capita incomes, high inflation, indebtedness and fiscal crisis; and (3) 1994–2004, ten years in which a stabilisation plan (the *Plano Real*) was successfully implemented and some reforms were introduced, but in which Brazil failed to find a new strategy for sustained growth and development. These three chapters on the Brazilian economy are followed by a single chapter on social continuity and change from c. 1920 to 2000, with special reference to population, social stratification, social (and geographic) mobility, social inequality, poverty, education, gender and, not least, race.

Brazilian intellectual life and Brazilian culture – literature, art and architecture, music, cinema and television – received extensive treatment in Volume X of the *History: Latin America since 1930: Ideas, Culture and Society*.

As in the previous volumes of the *History*, each chapter in Volume IX is accompanied by a bibliographical essay.

The editor would like to thank Frank Smith, Editorial Director, Academic Books at Cambridge University Press in New York, who waited patiently (sometimes not so patiently) for the ‘missing’ Volume IX of the *Cambridge History of Latin America* and finally agreed to publish it more than ten years after the publication of Volumes X and XI.

He also thanks the contributors to the volume, who each read at least one other chapter, and especially Marcelo de Paiva Abreu, who read and made

valuable and detailed comments on all of the chapters. Other friends and colleagues, though not themselves contributors, also generously agreed to read and comment on chapters: José Murilo de Carvalho and Boris Fausto (Chapters 1 and 2), João Roberto Martins Filho (Chapter 3), Timothy J. Power (Chapter 4), Victor Bulmer-Thomas (Chapter 5), Pêrsio Arida (Chapters 6 and 7) and Simon Schwartzman (an early version of Chapter 8).

The editor is grateful to the staff of the University of Oxford Centre for Brazilian Studies, especially Kate Candy and Sarah Rankin, for administrative and secretarial assistance and to a doctoral student at the Centre, Matias Spektor, for research assistance in the final stages of the preparation of this volume for publication.

The Assistant Editor at Cambridge, Simina Calin, and her production counterparts at Aptara Inc. – Mary Paden, production manager; Ellen Tirpak, copyeditor; and Jim Farned, indexer – helped turn the manuscript into a book.

Much of the writing of the politics chapters and the editing of the economy and society chapters was done during lengthy stays at Laura and Mario Góes's beautiful and peaceful Pousada da Alcobaça at Correias, near Petrópolis, in the mountains north of Rio de Janeiro.

Finally, without the steadfast support of Maria Eduarda Marques this volume would not have been completed even ten years later than originally planned.



Map of Brazil in 2000

PART ONE

POLITICS

POLITICS IN BRAZIL UNDER VARGAS, 1930–1945

Leslie Bethell

INTRODUCTION

The fifteen years between the Revolution of October–November 1930 that brought the First Republic (1889–1930) to an end and the military coup of October 1945 that ended the Estado Novo (1937–1945), a period dominated by Getúlio Vargas who was president throughout, were a watershed in the political, economic and social history of Brazil.

In his classic *A Revolução de 1930: historiografia e história* (São Paulo, 1970) Boris Fausto effectively demolished the view, prevalent in the 1960s, that the Revolution of 1930 represented the definitive end of the hegemony of the coffee-producing bourgeoisie of São Paulo and the rise to power of the industrial bourgeoisie and the urban middle classes. The conflict in 1930 was interregional, interoligarchical and, not least, intergenerational rather than intersectoral, much less interclass. The Revolution began on 3 October 1930 with an armed rebellion by dissident members of the political elite, especially in the states of Rio Grande do Sul and Minas Gerais but also in the Northeast, and disaffected army officers, unwilling to accept the victory of the ‘official’ candidate, Júlio Prestes, the representative of the landed oligarchy of São Paulo, in the presidential elections of March 1930. The rebellion triggered a *golpe* (military coup) on 24 October by senior army generals who removed President Washington Luís Pereira de Sousa from office. On 3 November the military transferred power to the defeated candidate in the March elections and leader of the rebellion, the governor of Rio Grande do Sul, Getúlio Vargas. Although there was a certain amount of popular discontent at the time, particularly as the first effects of the World Depression of 1928–1933 began to be felt, popular forces played only a minor role in the Revolution. What Louis Couty, a French resident in Rio de Janeiro, had famously written almost fifty years earlier remained

essentially true: 'Brazil has no people', that is to say, no popular forces that could be effectively mobilised for significant regime change.

The Revolution of 1930, however, proved to be more than simply a shift in the balance of power between landed regional elites, and in particular the arrival in power of the *gaúchos* (as the inhabitants of the southern state of Rio Grande do Sul are called) for the first time in the federal capital, Rio de Janeiro. The change of political regime brought a centralisation of power, an expansion of the federal state at the expense of state autonomy and a weakening of the state oligarchies; an end to liberal constitutionalism and representative government, only briefly restored in 1934, leading after 1937 to an outright authoritarian dictatorship; and a federal army greatly strengthened at the expense of the state militias and firmly established at the centre of power, where it remained for more than half a century. And unlike the political transition from Portuguese colony to independent Empire in 1822 and from Empire to Republic in 1889, both of which were marked by social and economic continuity, the new regime installed in 1930 initiated significant economic and social change. There was no sudden break with the past. Many of the economic and social changes had their origins in the period after the First World War, some even in the late nineteenth century. But in the period beginning with the Revolution of 1930, coinciding with World Depression, and especially after the establishment of the Estado Novo in 1937, which was in turn profoundly affected by the Second World War, Brazil experienced the beginnings of state-led economic development and industrial growth, while continuing to be heavily dependent on agricultural exports, especially coffee, and witnessed the growing importance of new, predominantly urban, social groups (administrators, industrialists, the professional and commercial middle class, and white-collar and industrial workers in both the public and the private sectors).

THE REVOLUTION OF 1930

*The Political System of the First Republic*¹

The political system of the First Republic, which entered its final phase with the presidential succession crisis of 1929–1930, was based on the

¹ For a more detailed analysis of the political system of the First Republic than is presented here, see Boris Fausto, 'Brazil: the social and political structure of the First Republic, 1889–1930', in Leslie Bethell (ed.), *The Cambridge History of Latin America*, volume V c. 1870–1930 (Cambridge, 1986).

Constitution of 1891, promulgated while Brazil was still under military rule following the overthrow of Emperor Dom Pedro II in November 1889. Under the political system of the Empire, which had preserved the unity of a huge, poorly integrated country with a population of only 10 million in 1872 and with little sense of national identity, power had been centralised in the hands of an hereditary Emperor and the ministers, counsellors of state (for life) and presidents of provinces he appointed. In 1891 Brazil became a decentralised federal republic somewhat on the model of the United States. A great deal of power was devolved to twenty states (the former provinces of the Empire) which, for example, had the right to raise taxes on exports and secure external loans and to maintain state military police forces that were virtually state armies, often bigger and better equipped than the local federal armed forces.

Under the Empire, only the lower house of the Parliament, the Chamber of Deputies, was elected. Under the Republic the president and the governors of the states, as well as both houses of Congress (Chamber of Deputies and Senate) and state assemblies, were elected (in theory freely elected by, and responsible to, those they governed). The level of political participation in the electoral process under the Republic, however, was very limited – in some respects even more so than during the Empire (at least until 1881). In the first place, voting was restricted to men over the age of twenty-one, with the exception of the rank and file of the armed forces and members of religious orders. Although the Constitution of 1891 had not *explicitly* denied women the vote and there were some isolated attempts to register women voters – for example, in Rio Grande do Norte in the late 1920s – in practice women did not vote. Secondly, although income or property requirements for voting had been abolished by one of the first decrees of the provisional republican government in November 1889, the Constitution of 1891 confirmed a new requirement for new voter registration introduced for the first time by the *Lei Saraiva* (1881) at the end of the Empire: namely, education as measured by a literacy test, or rather the capacity to sign one's name – in a country in which 85 percent of the population was illiterate. In the Constituent Assembly a greater effort had been made to extend the suffrage to women than to illiterates. And such was the neglect of public primary and secondary education – the principal instrument for the construction of civil and political citizenship – during the First Republic, responsibility for which had been devolved to the states, that as late as the Census of 1920 less than 25 percent of Brazil's population (which had grown by now to some thirty million) was literate. Less than

one million literate adult males therefore had the right to vote. No political campaign was ever mounted during the First Republic in support of a greater level of popular political participation.

Since neither registration to vote by those eligible to vote nor voting itself was obligatory, the numbers voting in elections during the First Republic was extremely low. Before 1930, even in the most competitive elections with the highest level of political mobilisation – for example, the presidential elections of 1910, 1919 and 1922 – no more than 5 percent of the adult population ever voted in an election. Even in the city of Rio de Janeiro, the capital of the Republic, with a population of half a million in the early part of the twentieth century, including an emerging urban middle class and the beginnings of an urban working class, only about 100,000 had the right to vote. Of these, only 25–35 percent registered to vote in elections between 1890 and 1910, and only between 7 and 13 percent (5–10 percent of the total adult population) actually voted.²

In 1890 less than 10 percent of Brazil's population could be classified as urban, that is to say, living in cities of more than 20,000 inhabitants, and no less than one third of the total urban population was concentrated in the Federal District. By 1920, when Rio de Janeiro had one million inhabitants, São Paulo, growing even faster than Rio, half a million, and there were another ten cities with populations of more than 100,000, the urban population was still only around 15 percent of the total population. Compared with Argentina, for example, both the urban middle class – in the liberal professions, commerce and the bureaucracy – and the skilled (and literate) working class – in public utilities, railways and other means of transport, ports, banks, the construction industry, commerce and the manufacturing industry, mostly textiles and the processing of food and drink – were relatively small. The bulk of the urban population consisted of artisans, unskilled manual workers and domestic servants, many of them ex-slaves or descendants of slaves. (The institution of slavery, which although heavily concentrated in plantation agriculture had permeated all sections of Brazilian society, rural and urban, had only finally been abolished eighteen months before the proclamation of the Republic.) Throughout the period of the First Republic 65–70 percent of economically active Brazilians were employed in agriculture, cattle-raising and rural industries and lived in small towns and in the countryside where, since neither the transition

² José Murilo de Carvalho, *Os bestializados: o Rio de Janeiro e a república que não foi* (São Paulo, 1987), chapter 3.

from colony to Empire in 1822 nor the transition from Empire to Republic in 1889 had disturbed the existing pattern of land ownership, productive resources, and especially land, were highly concentrated in the hands of a relatively few families in each state.

Elections for governor, state assembly and both houses of Congress were for the most part controlled in each state of the federation by a single statewide Republican party – the Partido Republicano Paulista (PRP), the Partido Republicano Mineiro (PRM), the Partido Republicano Riograndense (PRR) and so forth – which united the majority of the dominant landed families. There were always dissident factions, of course, and in Rio Grande do Sul, for example, competing political parties: the Partido Federalista (the former Liberals of the Empire) and, from 1908, the Partido Republicano Democrático (later Aliança Libertadora). With relatively few voters, no secret ballot, and no system of electoral supervision, the exercise of patronage through a complex system of clientelism, intimidation and, where necessary, violence, and outright fraud were widespread, especially in the more backward states of the Northeast and North, but also, though less so, in the more developed Southeast and South (and even to some extent in the cities). Since most Brazilians were extremely poor and lived without any form of social protection, those who had the vote were inclined to exchange it for food, cash and jobs. Local political bosses known as *coroneis* (because many had once had the rank of colonel in the National Guard) who, if they were not landowners themselves, broadly speaking protected the interests of the local landowners, often with what amounted to private armies, delivered votes to the candidates in return for federal, state and municipal appointments for themselves, their relatives and their friends. Elections in Brazil had more to do with public demonstrations of personal loyalties, the offer and acceptance of patronage, the resolution of local (and regional) conflicts without recourse to violence and, above all, control of a patrimonial state and the use of public power for private interests than with the exercise of power by the people in choosing and bringing to account those who governed them.

After the military, which provided the First Republic with its first two presidents – Marshals Manoel Deodoro da Fonseca and Floriano Peixoto – largely withdrew from politics in 1894, presidents of the Republic were elected in a nationwide poll every four years (with no reelection permitted) and all except one were civilians. Presidential elections were, however, for the most part predetermined by prior agreement between the state governors (representatives of the state oligarchies) in a process which came

to be known as a *política dos governadores* (the politics of the governors). The process was dominated by the two states – São Paulo and, after it had solved some internal political conflicts in the early years of the Republic, Minas Gerais. They had the most cohesive Republican parties and the most powerful state militias; between them they were responsible for over half Brazil's agricultural and, if the Federal District – Rio de Janeiro – is excluded, industrial production; together they had 40 percent of the electorate. The first three civilian presidents elected in 1894, 1898 and 1902 were all *paulistas*, representatives of the São Paulo coffee oligarchy. The presidency was then largely shared between São Paulo and Minas Gerais. Of the eight presidential elections contested between 1906 and 1930, three were won by *paulistas*, and three by *mineiros*.

Usually the state presidents and state oligarchies of São Paulo and Minas Gerais agreed on an 'official' candidate, and the other states, most importantly Bahia, Pernambuco, Rio de Janeiro and, once it, too, had resolved its internal conflicts, Rio Grande do Sul, fourth after Bahia in population but third in the number of literate male adults and therefore voters, fell into line. In 1909–1910, however, when they could not agree on a candidate, Minister of War Marshal Hermes da Fonseca, nephew of Deodoro, though not a candidate of the military as an institution, emerged as a compromise and was elected. In 1917–1918 they agreed on former president Francisco de Paula Rodrigues Alves, a *paulista*, but Alves died in January 1919 and, because vice-president Delfim Moreira was incapacitated, new elections were held in April and, with São Paulo and Minas Gerais no longer in agreement, another compromise candidate, Senator Epitácio Pessoa of Paraíba, backed by Rio Grande do Sul and the states of Northeast, was elected. Pessoa was the first and only northeasterner to become president during the First Republic. Divisions between São Paulo and Minas Gerais over the presidency in 1910 and 1919 provided an opportunity for the election to be more vigorously contested not only by dissident oligarchical groups in a number of states but also by Rui Barbosa, the great liberal jurist, standing as a *civilista* opposition candidate and mobilising the urban, professional middle class in particular (and some workers) in favour of political reform, clean elections, and the protection of civil liberties. In 1919 Rui secured a third of the national vote, and won in the Federal District.

In 1921–1922 the presidents of São Paulo and Minas Gerais, under the existing rules of the game, though the Republican party in each state was split internally, agreed that Artur Bernardes, a *mineiro*, would be their joint candidate. However, for the first time, they faced the united opposition

of all four 'second-level' states – Rio Grande do Sul (though itself divided with the PRR opposed by the both the Partido Federalista and the Aliança Libertadora), Bahia, Pernambuco and Rio de Janeiro. These states, along with dissidents in São Paulo and Minas Gerais, supported Nilo Peçanha, senator for the state of Rio de Janeiro, who had served as interim president in 1909–1910 following the death in office of the *mineiro* Afonso Pena. And on this occasion elements in the military led by ex-president Hermes da Fonseca, now President of the Clube Militar, joined what became known as the *Reação Republicana* against the '*o imperialismo dos grandes estados*' (the imperialism of the big states). The election of March 1922 produced the highest turn out in a presidential election thus far (almost 800,000 voters), and the lowest winning margin (466,000 to 318,000). Bernades did, however, win. No 'official' candidate ever lost a presidential election during the First Republic.

For the first time since the early days of the Republic the military, though weak and fragmented (despite some improvements introduced by the French military mission in 1920), had played a significant political role in the presidential crisis of 1921–1922. Of greater significance for the immediate future, however, was the emergence at this time of a 'movement' of young (and not so young) junior army officers (mostly lieutenants, hence known as *tenentes*), who were openly critical of the military high command and both the political system and the economic and social structures of the Republic. They criticised their seniors for having been co-opted and manipulated by Brazil's corrupt political elites who put regional before national interests and loyalties. They complained about the army's poor organisation, training and equipment – and its size, particularly relative to the state militias of the richer states. In 1921 the federal army and the state militias as a whole each had 29,000 officers and men, but one-quarter to one-third of the federal army was based in one state, Rio Grande do Sul. The *tenentes* also complained about the slow rate of promotion in the Brazilian army: two-thirds of the officer corps was second or first lieutenants; some second lieutenants waited fifteen to twenty years for promotion. Their ideology, if that is not too grand a term for what became known after the Revolution of 1930 as *tenentismo* (see, for example, Virgílio Santa Rosa, *O sentido do tenentismo*, 1932), was vaguely nationalist (the *tenentes* were greatly influenced by an organisation called *A Defesa Nacional* founded in 1913 and by Alberto Torres' classic works, *O problema nacional brasileiro* and *A organização nacional*, both published in Rio de Janeiro in 1914). They favoured the centralisation of power in the hands of an

enlightened technocratic military and civilian elite (the *tenentes* were not liberals and, opposed to universal suffrage, certainly not democrats) and an interventionist state, which were necessary conditions both for the reform of the military as an institution and for national economic development and an end to foreign capitalist exploitation of Brazil. They also argued in favour of agrarian reform and of social reform more generally in order to combat the poverty and ignorance of the majority of Brazilians.

Some *tenentes* were openly rebellious and engaged in a series of armed revolts, all of which eventually put down by loyalist troops: the first in July 1922 at the Copacabana Fort in Rio de Janeiro; two years later, on 5 July 1924, in São Paulo, led by Major Miguel Costa, the commander of the Força Pública, the state military police; finally, in October 1924 in Rio Grande do Sul led by a 26-year-old *gaúcho* army captain Luís Carlos Prestes, the future leader of the Brazilian Communist Party. Several hundred survivors of all three rebellions joined forces at Foz de Iguassú in April 1925. Costa and Prestes became commanders of what became known as the Prestes Column, which set off on a 24,000 kilometre ‘Long March’ through thirteen states in protest against the Bernardes administration and the state governors and state oligarchies supporting it. The army and state militias, their morale undermined, were reluctant to confront the Column because so many lieutenants, captains and majors were sympathetic to it, but it was finally defeated in February–March 1927 and dispersed to Bolivia and Paraguay. Many of its leaders, including Costa and Prestes, went into exile in Buenos Aires.

In the meantime, it was business as usual in the run-up to the 1926 presidential election. São Paulo and Minas Gerais supported Washington Luís Pereira de Sousa, the outgoing governor of São Paulo, but this time, unlike 1922, with the agreement of Rio Grande do Sul and all of the other states. Unopposed, *candidato único*, Washington Luís was elected in March and became president in November – curiously, for the reasons we have seen, the first representative of the state of São Paulo to serve as president since Rodrigues Alves (1902–1906).³ However, opposition, both generational and ideological, *within* the Republican parties of the more important states was even more evident in 1926 than in 1922. Following the conflict *between* the states in 1922, it was perhaps a further indication of a deepening crisis in the political system of the First Republic. In São

³ Washington Luís was not in fact a *paulista* by birth; he was a ‘*paulista de Macaê*’, born in the state of Rio de Janeiro.

Paulo, in February 1926, the PRR had actually split with the creation of a Partido Democrático (PD). And after the election a Partido Democrático was established in the Federal District (in May 1927) and a number of other states, notably Bahia and Pernambuco. Between July and September 1927 a loosely organised Partido Democrático Nacional (PDN) was formed.

The Presidential Succession 1929–1930

The issue of the presidential succession in 1930 once again strained the *política dos governadores*. President Washington Luís chose as his candidate, and therefore in effect his successor, Júlio Prestes de Albuquerque, who had succeeded him as governor of São Paulo in 1926. The aim was to consolidate the political as well as the economic hegemony of São Paulo, and maintain continuity of economic policy as Brazil, and particularly the coffee sector of São Paulo, began to feel the effects of the World Depression. In this he was supported by the coffee bourgeoisie, the industrial interests represented by the Centro de Indústrias do Estado de São Paulo and by important sections of the urban middle class united in the Partido Republicano Paulista (PRP) as well as by the Centro Industrial do Brasil in Rio de Janeiro and some agricultural and industrial interests in Minas Gerais. But in breaking the rules of the game and putting at risk the traditional agreement by which power alternated between São Paulo and Minas Gerais it is clear, with hindsight, that Washington Luís he made a disastrous mistake.

The governor of Minas Gerais, Antônio Carlos Ribeiro de Andrada, two former *mineiro* presidents, Wenceslau Brás and Artur Bernardes, and the traditional political families of Minas Gerais united in the Partido Republicano Mineiro (PRM) opposed Washington Luís's choice of Prestes as 'official' candidate for the presidency. To secure the support of Rio Grande do Sul, Antônio Carlos proposed in June that, instead of a *mineiro* candidate (most likely himself), the governor of Rio Grande do Sul, Getúlio Vargas, should be the 'opposition' candidate. In July, seeing an opportunity to capture the presidency for the first time, the political leaders of Rio Grande do Sul – Raul Pilla of the Partido Federalista and Joaquim Francisco de Assis Brasil of the Aliança Libertadora (who had in March 1928 joined forces in a Partido Libertador [PL]), and Antônio Augusto Borges de Medeiros of the Partido Republicano Riograndense (PRR) – formed a united front, the Frente Única Gaúcha (FUG), behind the candidacy of Vargas. Particularly enthusiastic about the decision of the PRM, the PRR and the PL to oppose the Prestes candidacy was a younger, better educated,

reform-minded generation of politicians, mostly sons of traditional families of *estancieiros* and *fazendeiros*: in Rio Grande do Sul, Oswaldo Aranha, João Neves da Fontoura, Firmino Paim Filho, Maurício Cardoso and João Baptista Luzardo of the so-called Generation of 1907 law students; in Minas Gerais, Virgílio de Melo Franco and Francisco Campos. Initial contacts were made with leading dissident politicians of the Partido Democrático (PD) in São Paulo, and the PDN in Bahia (J. J. Seabra), Pernambuco (Carlos and Caio de Lima Cavalcanti) and the Federal District (Adolfo Bergamini, Maurício de Lacerda and Pedro Ernesto). And in an attempt to secure support in the states of the Northeast, the governor of Paraíba, João Pessoa, nephew of former president Epitácio Pessoa (1919–1922), who had his own reasons, personal and political, for opposing Washington Luís, was invited to become the vice-presidential candidate of what was now called the Aliança Liberal. In September 1929 the Aliança's National Convention held in Rio de Janeiro unanimously nominated Vargas and Pessoa as its candidates for president and vice-president in the elections of March 1930.

Born in 1882 in São Borja on the frontier with Argentina, the son of an *estancieiro* and local politician, Getúlio Vargas, after a short spell in the army and after training as a lawyer, had joined the PRR and become a protégé of Borges de Medeiros, the state's long time political boss. Vargas was twice elected to the state assembly, in 1913 and again in 1917. In 1922, at the age of forty, he became a federal deputy, replacing a deputy who had died. In 1924 he was elected to the Chamber of Deputies and became the leader of the PRR *bancada*. Somewhat surprisingly, and for political reasons not because of any known competence in economic matters, Washington Luís made him his Finance Minister in 1926. In November 1927 Borges, who was prohibited under a state constitutional amendment of 1923 from serving a sixth successive term, had Vargas elected governor. Vargas's personality and political views were extremely complex. Good natured and conciliatory, opportunistic and pragmatic, he was somewhat authoritarian in the positivist, *gaúcho* tradition of Borges's own mentor Júlio de Castilhos (1860–1903), a supporter of states' rights but with a clear leaning towards a greater centralisation of power at the national level. And coming from Rio Grande do Sul, he defended economic interests that went beyond coffee and export agriculture in general, and was more conscious than most *paulistas* and *mineiros* of the need for the federal government to take greater responsibility for Brazil's national economic development and to confront Brazil's 'social problem'. He described himself as a '*conservador progressista*'.

Vargas was a reluctant opposition candidate for the presidency in 1930, not least because he knew he was unlikely to win: Prestes, the governor of São Paulo, had already been endorsed by the governors of sixteen other states (that is to say, all the states except Rio Grande do Sul, Minas Gerais and Paraíba) as well as a dissident faction, the *Concentração Conservadora*, in Minas Gerais.

The Liberal Alliance launched its campaign in Rio de Janeiro in January 1930. Its programme was essentially political: state autonomy, civil liberties, reform of the electoral system (freer and fairer elections and, in particular, the introduction of the secret vote and compulsory registration of those eligible to vote), and greater independence for the judiciary and the legislature. The Alliance did not aim, however, for anything that Argentines or Chileans at the time would have recognised as an opening to democracy. In particular, there was to be no extension of the suffrage to illiterates. Reflecting the influence of the *gaúchos* (and indirectly the *tenentes*) the Alliance's economic programme, while defending export agriculture and especially coffee damaged by the effects of the World Depression, emphasised the need for state intervention to protect and expand nonexport agriculture and domestic markets. While not anti-industry, there was evidence of prejudice against '*indústrias artificiais*' and no commitment to a coherent policy for industrial development. The programme, largely as a result of pressure from Lindolfo Collor, a positivist and a Catholic, who had replaced Vargas a leader of the Rio Grande do Sul *bancada* in Congress, also included a commitment to a significant extension of social rights: protection for workers, especially children and women, in the workplace, an eight-hour day, holidays with pay and a minimum wage. The programme appealed to the urban middle class previously mobilised by Rui Barbosa (who had died in 1923) and by now much bigger than in 1910 and 1919. The organised working class, however, was not a relevant political actor in 1930, although the Bloco Operário Camponês (BOC), which had been founded in 1928 in São Paulo as a front for the Partido Comunista do Brasil (PCB), illegal since its foundation in 1922, and which had two seats on the Federal District council, fielded its own candidate for presidency: Minervino Oliveira, a worker in a marble factory. Nevertheless, Vargas was generally surprised by the level of popular enthusiasm he encountered when he campaigned, for example, in São Paulo, Recife and not least Rio de Janeiro.

In the elections held on 1 March 1930, 1.9 million Brazilians voted, almost twice as many as in any previous election and for the first time since the establishment of the Republic in 1889 close to 10 percent of the adult

population. Despite some early indications that Vargas had won, which would have meant an opposition victory against the government in power for the first time in the history of the Republic, the ‘official’ candidate, Júlio Prestes, as was customary, was declared the winner with 1,091,000 votes to 737,000 votes for Vargas. As was also customary, the supporters of the defeated candidate denounced the elections as fraudulent, with irregularities in voter registration, the vote itself, the count (controlled by the government) and, later, the confirmation of the result by Congress (also controlled by the government). As usual there was some talk of armed resistance, the only course of action open to the opposition. But it was also customary for the opposition to accept its inevitable defeat and accommodate to the *situação*. In a preelection deal with Washington Luís Vargas had agreed to support Prestes if he won, in the interests of maintaining good relations between Rio Grande do Sul and the federal government in order to guarantee his state’s continued autonomy and to avoid any reprisals. Borges de Medeiros in a famous interview published in the newspaper *A Noite* on 19 March acknowledged Prestes’s victory, called on the opposition to accept the result, and declared categorically that there would be no resistance from Rio Grande do Sul.

Some of the younger leaders (the *ala moça*) of the Liberal Alliance, soon to be known as the *tenentes civis* (‘civil *tenentes*’), however, had always planned to resort to arms when (not, significantly, if) the election was lost. And to provide the necessary military leadership Vargas had authorised his state secretary of justice and the interior, the young lawyer and former federal deputy Oswaldo Aranha, to establish relations with Luís Carlos Prestes and the other *tenente* leaders in exile in Buenos Aires or in jail in Rio de Janeiro. There had been a number of clandestine meetings with Prestes and others in Porto Alegre in late 1929 and early 1930. The *tenentes* were initially reluctant to join a Liberal Alliance dominated by the state oligarchies of Rio Grande do Sul and Minas Gerais led by some of their greatest enemies (Borges de Medeiros, Antônio Carlos de Andrada and Artur Bernardes). They were even suspicious of the young ‘civil *tenentes*’. But in the end most *tenentes*, whatever their reservations about their allies, supported a revolution against the continuation of the oligarchical political system and especially against the dominance of São Paulo. Luís Carlos Prestes, however, did not. In May he turned down the possibility of assuming military command of the planned revolution, denouncing it as ‘bourgeois’. In his view Brazil needed a social revolution – land expropriation, the nationalisation of foreign enterprises, default on the foreign debt, a government

of the people rather than factions of oligarchy. Prestes had rejected the advances of leaders of the Communist party (Astrojildo Pereira in Bolivia in 1927, Leôncio Basbaum in Buenos Aires in 1929) who had tried to persuade him to join the party. Ironically, in 1930, Prestes, having moved significantly to the Left, was now rejected by the PCB, which regarded him as a petit-bourgeois with dangerous leanings towards *caudilhismo*. Alone among 'progressive' forces at the time the PCB opposed the Revolution of 1930.

Oswaldo Aranha was the driving force behind the efforts to prepare the state governments of Rio Grande do Sul, Minas Gerais and Paraíba for revolution, and in particular to persuade them to fund clandestine purchases of weapons and ammunition in Czechoslovakia. Antônio Carlos was hesitant, however, in view of the poor condition of his state militia. And Vargas remained cautious and enigmatic, vacillating, seemingly unwilling to seize the opportunity to embark on a revolutionary course. As late as 30 June no final decision had been taken. The plotting was at a standstill.

The conspiracy was revived by the assassination of the defeated vice-presidential candidate, governor João Pessoa of Paraíba. He was shot in broad daylight in a café in Recife on 26 July by João Dantas, a local political opponent with a personal grudge against him. But the killing was interpreted by the opposition as politically motivated, at the very least condoned if not actually planned by President Washington Luís. João Pessoa became a martyr to the liberal cause, a local and national hero, and his death was the catalyst for the more radical elements in the Liberal Alliance to rejoin the struggle to prevent Júlio Prestes from becoming president. The energetic and charismatic Aranha reassumed his role as the chief coordinator of a revolutionary movement. Vargas was finally convinced publicly to advocate revolution, as was Borges de Medeiros, which was crucial to the success of the rebellion since the Brigada Militar, the militarised state police of Rio Grande do Sul, and many of the 'provisionals' under rural political chieftains were loyal to Borges. On 7 September the newly elected governor of Minas Gerais Olegário Maciel agreed to honour his state's commitments to the revolution. In the Northeast the *tenente* Juarez Távora coordinated the opposition's military forces from the Amazon to Bahia.

In the meantime, the revolutionaries had found a substitute for Luís Carlos Prestes as military coordinator of the revolution. In August Lieutenant-Colonel Pedro Aurélio de Góis Monteiro, the most senior career officer sympathetic to the Liberal Alliance, had assumed command of its

military forces. Born in Alagoas in 1889, Góis had spent most of his career in Rio Grande do Sul. He had been a cadet, along with future president Eurico Dutra, in the Escola de Guerra de Porto Alegre, a contemporary of many of the law students of the Generation of 1907. He knew both Vargas and Aranha. French trained, intellectually bright, politically aware, and extremely ambitious, Góis was no radical – he had close ties with the regional oligarchies of both Rio Grande do Sul and Minas Gerais and he was against popular participation in politics – and he had opposed the *tenentes* throughout the 1920s. But he was fiercely opposed to the regionalisation of power under the First Republic, and especially the existence of state militias, and deeply committed to the reorganisation and modernisation of the federal army which could only come about through political centralisation, a change in national political leadership and indeed a profound national regeneration. In mid-September Aranha told Vargas that all was ready for him to assume command of the revolution. Vargas still had doubts as the very first entry in his Diary, on the day the revolution began, demonstrates: ‘the most pacific of men (*o mais pacífico dos homens*)’, a strong believer in government, law and order, starting a Revolution! He alone, he feared, would be held responsible if it failed.

The military threat posed by the opposition was not taken seriously by Washington Luís. He continued to believe that the governors of Rio Grande do Sul and Minas Gerais, and therefore their state militias, were fundamentally loyal. He remained confident that the army, especially the Second Army based in São Paulo as well as the São Paulo state militia, were loyal and could deal with the rebels in the South. The army of the sixth military region in Bahia, he believed, would stand firm against the rebels in Minas Gerais and the Northeast. Above all, the First Army in Rio de Janeiro would remain on his side. He was, therefore, confident in his ability to serve out his term and hand over power to his elected successor, Júlio Prestes, on 15 November. In all this he was badly mistaken. The military was in fact demoralised, divided and undisciplined. The command structure had virtually collapsed. Many senior loyalists, like Góis Monteiro, had already gone over to the rebels. Those who remained recognised public sympathy was with the opposition. For the military to resist the rebellion in the South and the Northeast was to risk civil war and almost certain defeat. Moreover, in São Paulo, where overproduction in the late 1920s, coinciding with the Wall Street Crash and the decline of economic activity in the United States and Europe, Brazil’s principal export markets, had led to a collapse of coffee prices and widespread bankruptcies, the failure of

the federal government to bail out the coffee support programme made the dominant groups somewhat less willing to defend Washington Luís and Prestes. They had no reason to think the Liberal Alliance would be better for them, but no reason to think it would be worse.

October–November 1930

On 3 October in Rio Grande do Sul a rebellion of the state military police, armed civilians and thousands of deserters from the federal army led by Aranha, José Antônio Flores da Cunha and Góis Monteiro quickly overcame the remnants of the Third Army. Porto Alegre was in rebel hands in twenty-four hours, the rest of the state in two days. Florianópolis in Santa Catarina and Curitiba in Paraná soon followed, and their state militias were incorporated into the rebel forces under Góis. On 4 October the federal troops and state militias in eleven states of the Northeast had declared themselves in favour of the rebels led by Juarez Távora. Only Pará remained loyal to the government in Rio de Janeiro. In Minas the army was mostly loyal, but the state militia were able to play a defensive role, preventing reinforcements reaching São Paulo in advance of the rebels. On 12 October, Vargas assumed personal command of the revolutionary forces. With Góis, he travelled by rail north to Paraná, Santa Catarina, and finally São Paulo, meeting little resistance. When hostilities were suspended following a military coup in Rio de Janeiro the *gaúchos* claimed that two thirds of all regular army units and the militias of fifteen states sided with the revolution.

On 24 October senior generals in the federal army exercising their 'moderating power' as servants of the nation and not of a particular government, had intervened to depose the president and their commander-in-chief Washington Luís. He was taken to the fort at Copacabana, and thence sent into exile. A provisional junta was installed consisting of General João de Deus Mena Barreto, Rear Admiral José Isaias de Noronha and, as its president, General Augusto Tasso Fragoso, the Army's most senior officer. Tasso who, aged twenty, had been involved in the coup which deposed Emperor Dom Pedro II, had served as Army Chief of Staff under both Bernardes and Washington Luís until retiring in 1929 to complete his monumental *História da Guerra entre a Tríplice Aliança e o Paraguai*. General Leite de Castro was appointed Minister of War. The junta intended, and tried, to stay in power. They believed Getúlio Vargas could be persuaded to join them. Most, if not all, of the senior military officers, however, always

intended the junta to be a caretaker government, to maintain order and public administration until Vargas arrived. The junta called for an immediate suspension of hostilities, but Góis, who had not been consulted, refused to halt the rebellion in the South, and Távora the rebellion in the North. Aranha was sent to Rio to negotiate the hand over of power to Vargas.

There was one final issue to be resolved: did Vargas have a mandate to govern for four years, under the Constitution of 1891, on the programme the Liberal Alliance had put to the electorate in March or, as the leader of a victorious rebellion, would he govern without constitutional restriction, and with no term limit? On 27 October the junta confirmed the latter. Vargas, wearing military uniform and a *gaúcho* hat, received an enthusiastic reception from the people of Rio de Janeiro when he arrived in triumph on 31 October – by train from São Paulo – with 3,000 *gaúcho* soldiers. Certainly there was more evident enthusiasm for regime change from the mass of Brazilians, at least in the capital and other cities, in 1930 than in 1889. But at this stage in his career the future populist politician saw no potential in popular political mobilisation. *O povo* (the people) were political spectators, not political actors. Three days later on 3 November the junta, after only ten days in power, surrendered power to Vargas. He had reached the presidency not by election, not by revolution (although there was much talk of ‘Revolution’), but by armed rebellion, the success of which had been greatly facilitated by a military coup.

On 11 November the 1891 constitution and the state constitutions were abrogated by decree. Executive and legislative power were concentrated in the hands of the provisional president Getúlio Vargas and his provisional government until a Constituent Assembly was elected; all legislative bodies – the national Congress, state legislatures and municipal councils – were dissolved; the previously elected state governors of all twenty states plus the nominated mayor of the Federal District and governor of the territory of Acre were to be substituted by federal *interventores* nominated by the president; the Federal Supreme Court was enlarged and packed with Vargas supporters. In his inaugural speech Vargas made no reference to the March elections or the Liberal Alliance and its programme of electoral reform, protection for civil liberties, and guarantees of state autonomy. He made no reference to his presidential term, no promise of an early return to constitutional rule; that is to say, no immediate elections for a Constituent Assembly were promised. The First Republic, or ‘Old Republic’ (*República Velha*) as it was now called, had come to an end, the ‘Era Vargas’ had begun.

FROM REVOLUTION TO ESTADO NOVO, 1930–1937

The political forces that came to power with Getúlio Vargas in November 1930 were extremely heterogeneous, indeed antagonistic. There was considerable potential for future conflict and struggle over power.

First, there were the professional politicians of the old state Republican parties (especially in Rio Grande do Sul and Minas Gerais), the backbone of the Liberal Alliance formed to elect Vargas president. They had succeeded in their primary aim of denying São Paulo the presidency. They were now in favour of a rapid return to government under the Constitution of 1891 with, of course, guarantees for state autonomy. In other words: politics as usual. Some of the opposition, dissident elements in these two states, and in other states, including São Paulo, where the Partido Democrático had joined the Liberal Alliance, as well as the urban middle classes, who had voted for Vargas, especially in the Federal District, also wanted a return to constitutional government. They expected, however, a fundamental reform of the political system of the Old Republic (more independence for the legislative and judicial powers, freer, fairer and cleaner elections, and especially the secret ballot, and stonger guarantees for political and civil liberties).

Secondly, there were the *tenentes*, both first-generation ('historic') *tenentes* and now second-generation *tenentes* who had graduated from the military academies in the late twenties, together with their civilian allies, the so-called 'civil *tenentes*'. They wanted not only the centralisation of power, political and administrative, with severe limitations on state autonomy and the dismantling of the political structures of the Old Republic, but also sweeping socioeconomic change, national reconstruction, a new Brazil.

Finally, there were those high-ranking officers in the military like Góis Monteiro who, while opposed to the *tenentes*, had joined the Revolution at an early stage, and those military 'legalists' who had thrown in their lot with the revolutionaries at the eleventh hour when they saw no way of maintaining President Washington Luís in power (or inaugurating his successor Júlio Prestes) and had smoothed Vargas's path to power by deposing him. Deeply disturbed by how far the already fragile discipline and unity of the military had been undermined during the 1920s and had collapsed in 1930, many of these officers recognised that they now had an opportunity to rebuild the federal army and in particular to strengthen it in relation to the state militias. Military reconstruction would go hand in hand with national reconstruction under the Provisional Government.

Vargas had to find a balance between these conflicting political forces, at least in the immediate aftermath of the Revolution, while at the same time responding to the pressure of events, particularly the challenges presented by the economic crisis resulting from the impact of the 1928–1933 World Depression.⁴ He was determined, above all, to prevent a restoration of the previous oligarchical political system, while restraining the radicalism of both the genuine liberals (Vargas was no liberal) and the *tenentes*, military and civil (Vargas also was no revolutionary). In the final analysis, he had achieved power through armed rebellion and military coup; he felt himself dependent on the armed forces and was always most responsive to their needs and demands.

The composition of Vargas's first cabinet reflected the regional as well as the social and ideological heterogeneity of the forces that had brought him to power. From Rio Grande do Sul, Oswaldo Aranha, '*a estrela da revolução*', was given the most important post of Justice of the Interior, Assis Brasil, the leader of the Partido Libertador (and nominal head of the Partido Democrático Nacional), the Ministry of Agriculture, and Lindolfo Collor the new portfolio of Labour. Another *gaúcho*, João Batista Luzardo, was nominated police chief of the Federal District. From Minas Gerais, Afrânio de Melo Franco, the father of Virgílio, who had served as ambassador to the League of Nations and as federal deputy, was made Minister of Foreign Relations, and Francisco Campos, the young protégé of governor Olegário Maciel, was given the new portfolio of Education and Public Health. José Maria Whitaker, a *paulista* banker linked to the Partido Democrático, became Minister of Finance, not least to reassure the international financial community. From the Northeast, Juarez Távora became Minister of Transport and Public Works. After three weeks, however, he resigned in favour of José Américo de Almeida, the political heir of the assassinated governor of Paraíba and vice-presidential candidate João Pessoa and civilian leader of the Revolution in the Northeast. Távora took over the Delegacia Militar do Norte and quickly became known as the 'Vice-Rei do Norte'. As Minister of War Vargas re-appointed General Leite de Castro, who had held the post under the short-lived three-man military junta. One member of the junta General Tasso Fragoso became Army Chief of Staff in March 1931 (a post he had already held for several years before the Revolution), another General Mena Barreto had the important post of Inspector of the Army Regions. Góis Monteiro was not at first

⁴ On the economic policies of the Vargas administration, see Chapter 5 in this volume.

given an official post, but by this time only Aranha was closer to Vargas. Góis became a prominent figure in Vargas's 'kitchen cabinet', which was otherwise dominated by *tenentes* and *tenentes civis*, principally Aranha and Juarez Távora.

Vargas regarded the federal *interventores* he appointed in place of the elected state governors, many of them ex-*tenentes*, some army officers on active duty, and some civilians, as key instruments for the success of the Revolution. Within two weeks he had all twenty states firmly under his control. Only one governor survived: the octogenarian Olegário Maciel in Minas Gerais who was unswervingly loyal to Vargas. Elsewhere Flores da Cunha, a key figure in the Revolution, close to Vargas but always somewhat ambiguous in his attitude towards him, acceptable to Borges de Madeiros but not subservient to him, was appointed *interventor* in Rio Grande do Sul. There was much manoeuvring over who should become *interventor* in São Paulo (civilian or military, *paulista* or non-*paulista*) before Vargas eventually opted for the *tenente* João Alberto Lins de Barros, a native of Pernambuco whose army service had been mainly in Rio Grande do Sul. Another historic *tenente* Miguel Costa, the son of Spanish immigrants to Argentina whose family had moved to São Paulo when he was a child, was appointed commander of the Força Pública, the São Paulo state militia. In the Federal District Adolfo Bergamini (PD) served as *interventor* for a year before being replaced in September 1931 by Pedro Ernesto, a medical doctor (indeed the Vargas family's personal doctor) who had had close links to the *tenentes* since 1924. Juraci Magalhães, a *tenente* from Ceará and at twenty-six the youngest *interventor*, was sent to Bahia, Carlos de Lima Cavalcanti, a civilian but clearly identified with the *tenentes*, to his home state of Pernambuco. Several other *tenentes* served as *interventores* in the Northeast and North – for example, Roberto Carlos Carneiro de Mendonça in Ceará, Hercolino Cascardo in Rio Grande do Norte – mainly on the recommendation of Juarez Távora. Many *interventores* had only a brief tenure. No less than eleven were replaced during 1931, eight of them civilians replaced by the military. In all fifty-seven *interventores* were appointed in the less than four years of the provisional government (November 1930–July 1934), half of them from the military.

Under the *Código dos Interventores* of August 1931, all *interventores*, military as well as civilian, were subordinate to the federal Minister of Justice (Aranha in the first year of the provisional government). In practice, the *interventores* in the North and Northeast also reported to Juarez Távora. Unlike state governors during the Old Republic they were not permitted

to negotiate foreign loans without authorisation, or to spend more than 10 percent of the state budget on their militias, or to develop armaments superior to those of the federal military (e.g., no heavy artillery, no airplanes). They were there to weaken the political power of the state oligarchies, but many interventors, especially in the Northeast (e.g., Bahia and Pernambuco) adapted to the local power structures, maintained close ties with local elites, and created their own power base and interests in conflict with those of the federal government to which they were responsible.

In the first year of the provisional government, the *tenentes*, including the *tenentes civis*, could be said to be the dominant force in the inner circle of civil and military figures close to Vargas. They attempted to differentiate themselves, as the true revolutionaries, from other sections of the new establishment. They formed, in February 1931, the *Clube 3 de Outubro* as an intellectual pressure group linking civilians with the military. Aranha and Távora played a prominent part from the outset, though Góis Monteiro was the first president. When Góis left in May to take command of the second military region (São Paulo) the vice-president Pedro Ernesto became president with Aranha (until August) and José Américo de Almeida, both government ministers, vice-presidents. Leading intellectuals like José Francisco de Oliveira Viana were also associated with the Club. The first meeting, in Aranha's house, included Plínio Salgado, the future leader of the fascist Integralists (see below). One thing they were all agreed on: there could be no immediate return to constitutional government, that is to say, no immediate elections to a Constituent Assembly as had happened in 1890 after the overthrow of the Empire. Vargas's dictatorial powers would need to be preserved until the political (and military) power of the state oligarchies, especially that of São Paulo, had been permanently dismantled and the transformation of Brazil's economy and society had begun. The *tenentes* created the Revolutionary Legion or Legion of October with branches throughout Brazil – for example, the *Legião Revolucionária de São Paulo* (later the *Partido Popular Paulista*) led by Miguel Costa – in order to disseminate their revolutionary ideas. The Legion's first big parade in Rio de Janeiro on 21 April 1931 had distinct fascist overtones.

The *tenentes* influenced economic policy – state intervention in support of coffee, for example – while at the same time encouraging a shift from export to non-export agriculture and industry. More significantly, they had considerable influence on social policy, supporting in particular state intervention to promote the development of labour unions and to extend social welfare benefits to workers and their dependents. In November 1930

one of the first measures of the revolutionary government had been to establish a Ministry of Education and Public Health and a Ministry of Labour, Industry and Commerce (MTIC). The latter was soon known as the '*Ministério da Revolução*', with Lindolfo Collor in charge until March 1932, followed by another *gaúcho* Joaquim Pedro Salgado Filho (until July 1934). Decree 19.700 (March 1931) began the process of dismantling what was left of the independent, autonomous labour unions and their anarchist, anarcho-syndicalist or Communist leadership after the repression of the 1920s, in the wake of a series of major strikes in 1917–1920. They were gradually supplanted by unions closely controlled by the state (that is to say, by the Ministry of Labour) and state-approved leaders. At the same time, the eight-hour day, holidays with pay, protection for women and minors were introduced in commerce and industry, and the provision of retirement pensions, first introduced under the 1923 *Lei Eloi Chaves*, was extended from individual companies to entire categories of workers, beginning with the transport, commerce and banking sectors. Minimum wage legislation was drafted, but both Collor and Salgado preferred to concentrate on working conditions and pensions. The new labour and social legislation applied only to urban workers in the formal sector. Urban domestic workers, for example, and the great mass of rural workers were never included.⁵

The *tenentes*, however, gradually lost influence at the centre of power. They had hoped to institutionalise the Revolution through the creation of a national revolutionary party. But the Revolutionary Legions remained a 'civilian army' more than a political party, and a belated attempt to establish a Partido Revolucionário Nacional failed, as the leading *tenentes* were forced to recognise in November 1931. When on the first anniversary of the *Clube 3 de Outubro* in February 1932 the *tenentes* launched their 'Revolutionary Programme for the Social and Political Reconstruction of Brazil' their influence had already passed its peak. They had become more dependent on Vargas than he was on them. They had no deep roots in Brazilian society. They perhaps never had an entirely coherent ideological project and certainly no well-formulated programme for government. Aranha had left the Ministry of Justice in November 1931 and moved to the Ministry of Finance. Among the *interventores* who were *tenentes*, João Alberto had been withdrawn from São Paulo in July 1931; Cascardo resigned in Rio Grande do Norte in March 1932, Carneiro de Mendonça in Ceará in February 1933.

⁵ For further discussion of social policy under the Vargas administration, see Chapter 8 in this volume.

In November 1932 Pedro Ernesto and Juarez Távora presided over a Congresso Nacional Revolucionário which led to the creation of a Partido Socialista Brasileiro. The PSB was, however, short-lived. Távora became Minister of Agriculture in December and later, like the majority of the *tenentes*, returned to the military. Many of those who preferred to resign, or were driven out of power, reappeared in the mid-1930s both on the Right in the Ação Integralista Brasileira and on the Left in the Aliança Nacional Libertadora (see below).

Vargas had used the *tenentes* and their civilian allies in his struggle to reduce the political power of the old regional oligarchies. And he had allowed them to play an influential role in the formulation of policy. But he had not allowed them to build an independent power base, not least because of opposition from military leaders like Góis for whom the *tenentes* represented a threat to hierarchy and discipline in the new federal army they were carefully constructing. While incorporating elements of the old officer corps (though not many) and officers in the revolutionary army, including some who had been expelled in the 1920s, in the year and a half following the Revolution two dozen major generals and brigadier generals, more than forty colonels and many junior officers were retired from active service, that is to say, purged. The federal army also grew in size – from 38,000 officers and men in 1927 to 58,000 in 1932 – while the state armies increased from 28,000 to 33,000. And the military's share of the federal budget increased from around 20 percent in 1930 to more than 30 percent in 1932.⁶ Filling the political vacuum left by the *tenentes*, the new military High Command was developing a close relationship with Vargas, for whom the military was to become the national institution whose vision of Brazil's future (and the threats to Brazil from inside and outside) was closest to his own and on which he could most rely.

Throughout the Provisional Government's first year in power 'Constitutionalist' opposition – in São Paulo, Bahia, Pernambuco, Rio de Janeiro and even in the two states which provided Vargas with his most solid support, Minas Gerais and Rio Grande do Sul – had gathered momentum. It was a reflection of the discontent of both the old state-base oligarchical parties and politicians, who had lost out to the *tenentes* and the military in central government and to the federal *interventores* in the state governments, and

⁶ José Murilo de Carvalho, *Forças armadas e política no Brasil* (Rio de Janeiro, 2005), p. 89

the urban middle class which had supported the liberal programme of the Liberal Alliance. There was growing concern at what was regarded as a 'revolution within the revolution', a project for centralising power which rejected a return to constitutional government, including a measure of state autonomy, and sought to establish an authoritarian dictatorship.

Opposition to the Vargas government was most strongly manifested naturally in São Paulo, the main loser in the Revolution of 1930. São Paulo was in effect under military occupation. Power was in the hands of three leading *tenentes*: João Alberto, the state *interventor*; Miguel Costa, the state secretary of security and commander of the state militia, the Força Pública, and the São Paulo branch of the 5 de Julho Legião Revolucionária; and General Isidoro Días Lopes, who commanded the federal troops based in São Paulo. (Días Lopes was removed in April when became too sympathetic to the Constitutionalist cause and attempted to mobilise the Força Pública against João Alberto; he was replaced by Góis Monteiro. João Alberto resigned July 1931 and was replaced by a civilian *interventor*, a *paulista*, but he only survived until November when he was replaced by another *tenente*.) The *paulista* elite – coffee *fazendeiros*, industrialists, the urban upper and middle class – was broadly united against the centralisation of power and the Vargas 'dictatorship' and in favour of a speedy return to constitutional rule, representative government, and a restoration of São Paulo's autonomy and its 'natural' ascendancy in national politics. The Partido Democrático which had supported the Liberal Alliance and the revolutionaries of 1930 withdrew its support from the federal government in January 1932 and in February joined its old enemy the PRP, which had been discredited and inactive for over a year, in a Frente Única Paulista (FUP) which began to prepare for the overthrow of the Vargas government by armed force.

In February 1931, in an early concession to the liberal constitutionalists, Vargas had set up an Electoral Reform Commission headed by Assis Brasil, the *gaúcho* Liberal politician and author of *Democracia representativa: do voto e do modo de votar* (1931). The Commission did not, however, report until September. And it was February 1932, when the Constitutionalist opposition, at least in São Paulo, was already well advanced in its preparations for revolution, before Vargas finally issued the Electoral Code which was intended to form the basis for elections to a Constituent Assembly. The Code introduced a series of important modifications to previous practice under the Old Republic. First and most important, the right to vote was extended to women (always provided they were literate). The suffrage had been first extended to women in New Zealand in 1893, followed by

Australia in 1902, some West European countries including Germany at the end of the First World War, though not until 1928 in the United Kingdom. In the Western Hemisphere women won the right to vote in Canada in 1918 and in the United States in 1920, but among Latin American countries only in Ecuador in 1929. (It was 1944 before women were given the vote in France, for example, 1946 in Italy, 1947 in Argentina, 1953 in Mexico, and 1974 in Portugal.) Secondly, the voting age was lowered from twenty-one to eighteen. Finally, the vote became secret, and to further protect the voter against the pressures of political bosses and to reduce fraud an attempt was made for the first time under a new system of *justiça eleitoral* to provide for the organisation and supervision of honest elections in Brazil. Regional Electoral Tribunals, that is, professional judges, became responsible for the registration of parties and candidates, the conduct of the elections, the count, and the official confirmation of those elected. All these were major 'democratic conquests'.

The Electoral Commission had discussed the introduction of universal suffrage, but it was finally decided to retain literacy as a requirement to vote. Registration to vote remained the responsibility of the individual, as it had been under First Republic, but it was now possible for heads of public bodies, including government ministries, and large companies to register their workforce as a whole (the so-called ex-officio voter registration) which in many cases would prove to be a way of circumventing the literacy requirement for voting. And the vote was made compulsory for men under sixty and all those in public employment (*funcionários públicos*), including women. Heavily influenced by *tenentismo*, the Code also established that the Constituent Assembly would consist of one directly elected representative for every 150,000 inhabitants (not voters) in each state and when a state had more than twenty-five representatives the proportion should be increased to one representative for every 350,000 inhabitants – a mechanism to reduce the influence of São Paulo and to a lesser extent Minas Gerais. Moreover, after much debate indirectly elected class representatives – from labour unions, employers' organisations, professional associations, and so forth – were added to the representatives directly elected by voters – to reduce the influence of state oligarchies (and therefore landed interests) in the Assembly. No date was set, as the leaders of the *Constitutionalistas* in São Paulo were quick to point out, for the elections to a Constituent Assembly.

In its preparations for armed resistance to the Provisional Government in Rio, São Paulo looked for support from other states and particularly

from Minas Gerais and Rio Grande do Sul, its main opponents in 1930. Important elements there were equally concerned at the rapid shift in the balance of power between federal and state governments, the influence of the *tenentes* and the Revolutionary Legions and the decline of their own influence over the federal government. In Minas former presidents Wenceslau Brás and Artur Bernardes and, more important, in Rio Grande do Sul Raul Pilla (PL) and Borges de Medeiros (PRR), Getúlio's former patron, all of whom had supported the Liberal Alliance and the 1930 Revolution, were increasingly sympathetic to São Paulo's defence of state autonomy. A semi-formal agreement between the Frente Única Gaúcha (FUG) and the Frente Única Paulista (FUP) in March 1932 in support of Constitutionalism greatly accelerated preparations for war. Reviewing the performance of the Provisional Government in his diary a few years later Vargas commented that he had hoped for at least three years of dictatorship (*'pelo menos três anos de ditadura'*) before a return to the party politics of the past, but he had been allowed only one year. For this he blamed not only the São Paulo leaders but also Borges and Pilla, *'dois lunáticos e despeitados que sabotaram a obra da ditadura e acularam a revolução de São Paulo'* [two resentful lunatics who sabotaged the work of the dictatorship and encouraged the revolution of São Paulo].⁷

The two federal *interventores*, Olegário Maciel in Minas Gerais and Flores da Cunha in Rio Grande do Sul, however, wavered. Although they did not feel irrevocably committed to Vargas and had the interests of their states to protect, they had to calculate the risks of a complete break with their old ally, who could count on the loyalty of the federal army. Vargas worked hard to keep them on his side. As for São Paulo, besides continuing to pursue an economic policy favourable to the coffee interests, he appointed in March 1932 a *paulista* civilian, Ambassador Pedro de Toledo, as *interventor*, the fourth in fourteen months, and in May he finally announced the date for elections to a Constituent Assembly (3 May 1933).

None of this satisfied the Constitutionalist opposition, however. There was by now a serious credibility gap. Vargas was seen as devious, unscrupulous, and determined to prolong his revolutionary dictatorship as long as possible; he would surely find an excuse to postpone the promised elections. The *paulista* elite and middle class (if not the population as a whole) were determined to resort to arms. The cause was just, victory certain. The

⁷ Diary entry 21 August 1935, quoted in Boris Fausto, *Getúlio Vargas; o poder e o sorriso* (São Paulo, 2006), p. 69.

war would be short and bloodless. The federal troops in São Paulo and the *paulista* state militia were united under Major General Dias Lopes and ready for action. Brigadier General Bertoldo Klinger, a field commander stationed in Mato Grosso who had been trained in Germany, had promised 5,000 troops. Rio Grande do Sul would join in, bring with it Santa Catarina and Paraná. Minas would be neutral at first, but would then also join. Troops from Rio Grande do Sul, Minas Gerais and Paraná would converge with the *paulista* forces and march on Rio de Janeiro where they would find many constitutionalist sympathisers among the officers in the First Army and the Vila Militar. Vargas would resign, or the military High Command would depose him as they had deposed Washington Luís in October 1930. A five-man junta representing Constitutionalists in São Paulo, Rio Grande do Sul, Minas Gerais, the Federal District and the states of the North would be formed, and elections for a Constituent Assembly held. It was all an illusion, a tragic miscalculation.

On 9 July 1932 General Euclides Figueiredo commanding the *paulista* Força Pública and the federal army garrisons of the São Paulo military region precipitated the Constitutionalist Revolution and subsequent Civil War by declaring himself in rebellion against the federal government – thus surprising our friends and alerting our enemies, as General Isidoro Dias Lopes famously declared. The constitutionalist forces in São Paulo numbered 40,000–50,000, the largest armed movement in Brazilian history thus far, though lacking sufficient experienced officers and, initially at least, armaments. There followed an extraordinary degree of voluntary popular mobilisation – mostly middle-class mobilisation (organised labour on the whole remained aloof) – in support of the war. And *paulista* industry made heroic efforts to adapt itself to the production of arms and ammunition. However, and this proved decisive, support from the other states never materialised. Only General Klinger arrived from Mato Grosso to help, but with only few hundred troops. Decisively, despite some internal opposition in favour of the rebellion – from ex-president Bernardes in Minas Gerais, from Borges de Medeiros and Raul Pilla in Rio Grande do Sul – Olegário Maciel and Flores da Cunha in the end remained loyal to Vargas, as did the *interventores* in Rio de Janeiro and the states of the North and Northeast. The political and economic elites in the two crucial states of Minas Gerais and Rio Grande do Sul, whatever their differences with Vargas, would not openly confront the government they had supported since the Revolution of 1930, especially on the issue of São Paulo's autonomy. There were a few, minor military rebellions in Rio Grande do Sul and Minas Gerais as well

as in the Federal District and the states of Rio de Janeiro, Paraná, Bahia, Pará and Amazonas, and a number of demonstrations in support of São Paulo led by students, intellectuals and local politicians in Belém, Salvador and Rio, but these were all quickly put down by the army and the state militias.

Thus, São Paulo found itself alone facing 60,000 better trained and better equipped government troops drawn from units of the federal army and the state militias (with a further 20,000–60,000 from the state militias of Rio Grande do Sul, Minas Gerais, Bahia and Pernambuco available if needed) under the overall command of Góis Monteiro who had been promoted to General. (Army Chief of Staff Tasso Fragoso was passed over and resigned in August.) At the same time the navy instituted a blockade of the port of Santos. The Constitutionalist Revolution, it has been said, was born defeated. Yet the Civil War lasted eighty-five days. It involved the use of heavy artillery, massed infantry charges on entrenched positions and, for the first time in Brazil, aerial bombardments. Estimates of the dead and wounded on both sides, military and civilian, range from 3,000 to 15,000, the latter figure almost certainly an exaggeration. On 1 October the representatives of the Força Pública, facing defeat, met Góis Monteiro at his headquarters in Cruzeiro, Vale do Paraíba. The next day they agreed to an unconditional surrender. The Constitutionalist Revolution and the Civil War were over. São Paulo had been defeated for the second time in two years, politically in 1930, militarily in 1932.

São Paulo was once again politically subordinated to the federal government in Rio de Janeiro and under military rule. Several dozen of the Constitutional Revolution's most prominent leaders and sympathisers were arrested or exiled to Uruguay or Argentina. (Among its sympathisers outside São Paulo former president Bernardes, for example, was exiled to Portugal; Borges de Medeiros went into internal exile in Pernambuco.) It is perhaps a myth that São Paulo lost the war but won the peace in the sense of achieving its main political objective: elections to a Constituent Assembly. The process of re-constitutionalisation was well under way before the outbreak of the Civil War, as we have seen. But had it not been for armed opposition from São Paulo would Vargas have found an excuse to delay the elections? This we will never know. The fact is, however, that Vargas could not afford to alienate São Paulo permanently, and he was therefore magnanimous in victory – supplying the population of São Paulo with food, redeeming São Paulo state war bonds, adopting economic policies (the *reajustamento econômico* of 1933) in the interests of *paulista* coffee

producers and exporters (and industrialists) as well as confirming that elections to a 214-member Constituent Assembly would take place on schedule in May 1933.

Vargas did not intend these elections to provide an opportunity for the political forces he had defeated in 1930 and again in 1932 to return to power. The aim rather was to provide legitimacy and a broader base for his provisional revolutionary government. The 1932 Civil War provided him with a unique opportunity to re-shape the political forces in each state by strengthening the state political machines in the hands of federal *interventores* and facilitating the creation of new pro-government state parties to contest the 1933 elections – and any future Congressional and state elections. Rio Grande do Sul and Minas Gerais remained the two strongest states in the Vargas camp. In November 1932 Flores da Cunha, who as a result of the Civil War had finally replaced his mentor Borges de Medeiros as the undisputed political boss of Rio Grande do Sul, gathered a majority of Republicans and a large minority of Liberals into a new Partido Republicano Liberal (PRL), leaving the remnants of the FUG to form a weak opposition. In January 1933 Olegário Maciel and Antônio Carlos Ribeiro de Andrada in Minas formed a new stronger coalition of political forces, the Partido Progressista (PP), at expense of the old PRM. In São Paulo, however, although the organisations of the the PRP and the PD, the parties that had formed the FUP, were destroyed and their leaders in exile, the various attempts to form a pro-Vargas party by General Waldomiro Lima, appointed military governor (federal *interventor* from January 1933), were less than successful. And in March 1933 the opposition forces united in a Chapa Única (single slate) to continue the struggle against Vargas at the polls. Elsewhere, although there remained at least one opposition party in most states, despite the obstacles put in their way, new parties created by the *interventores* were dominant. They had a variety of names: the most popular were Social Democratic (Pernambuco, Bahia, Maranhão, Espírito Santo and Paraná) and Liberal (Mato Grosso, Pará and Santa Catarina). In the Federal District the *prefeito* (former *interventor*) Pedro Ernesto created the Partido Autonomista.

The complicated new registration procedures meant that in the end many fewer Brazilians registered to vote in 1933 than in 1930: less than 1.5 million compared with 1.9 million in 1930. Newly enfranchised 18- to 21-year-olds and women of all ages were particularly slow to register. Only 15 percent of eligible women did so. 1.2 million Brazilians voted in the

3 May 1933 elections for the Constituent Assembly, a third fewer than in the presidential elections of March 1930 when only men over twenty-one were entitled to vote. The elections were contested by more than 1,000 candidates on more than 100 party and coalition tickets – a third of the candidates and nearly a quarter of the parties and coalitions in the Federal District and Rio de Janeiro state. Forty-two parties and party coalitions elected candidates. In Minas Gerais, which had the largest *bancada* in the Assembly (thirty-one deputies, 15 percent of the total), the PP elected twenty-five deputies, the opposition PRM six. In Rio Grande do Sul the PRL elected thirteen of the state's sixteen deputies, the FUG three. In the Federal District the Autonomistas captured six of the ten seats. The parties supporting the provisional government won twenty (of twenty-two) seats in Bahia, fifteen (of seventeen) in Pernambuco, three (of four) in Mato Grosso, Espírito Santo and Santa Catarina, and all the seats in Alagoas, Goiás, Pará and Paraíba (twenty-two deputies in all). Waldomiro Lima in São Paulo was one of only five *interventores* to fail to deliver at least a majority of their state delegations. The opposition Chapa Única elected seventeen of the twenty-two deputies, the Socialists three, his own party, the Partido da Lavoura, only two. One woman was elected: Carlota Pereira de Queiroz (Chapa Única, São Paulo) – the first woman to serve in the national legislature. Another, Berta Lutz, was elected a *suplente* (alternate). On 28 June, under the aegis of the Ministry of Justice, forty class or corporate deputies were indirectly elected: eighteen by workers' unions, seventeen by employers' organisations, three from the liberal professions, and two from the civil service. One of the union delegates was female – Almerinda Farias Gama of the Sindicato dos Datilógrafos e Taquígrafos do Distrito Federal.

The Constituent Assembly (a body of 254 *deputados*: 214 elected in state *bancadas* and 40 in *bancadas classistas*) met for the first time on 15 November 1933. Eight months later, in July 1934, a new Constitution was promulgated. It was in part a restoration of the Constitution of 1891, surprisingly liberal in view of the composition of the Assembly: with over 80 percent of the deputies, the *situacionistas* had a solid majority. It incorporated the Electoral Code of 1932 (including votes for women, a voting age of 18 for all – provided a literacy test was passed, and obligatory voting for men under 60 and all public servants, male and female) and guaranteed basic political and civil liberties as well as states' rights, offering therefore some satisfaction to the traditional political elites and urban middle class, especially in São Paulo. It also restored the freedom and autonomy of labour unions (*sindicatos*). The features of the 1934 Constitution that were new included

the articles relating to the economy and society (national ownership of minerals and water; the minimum wage; protection for women and minors; free obligatory primary education), limiting the right of states to tax, and placing state militias (still constitutionally Brazil's 'reserve army') under the command of regional army commanders. The state military police forces were only brought under the direct control of the federal government, that is to say, the Minister of War, with the establishment of the Estado Novo in 1937.

The Assembly determined that elections for a Chamber of Deputies and for state constituent assemblies (which would eventually become state assemblies and elect state governors and state representatives in a federal Senate) would be held in October 1934, and direct elections for president and state governor in January 1938. In the meantime, indirect elections (by the Constituent Assembly itself) for president were to be held immediately – for a four-year term (to May 1938), with no reelection permitted. This allowed for a possible extension of Getúlio Vargas's *mandato revolucionário*. Vargas duly offered himself as a candidate. And on 16 July he was elected constitutional president of Brazil with 175 votes to 59 (including most of the paulista Chapa Única) for Borges de Medeiros, standing as the candidate of the opposition.

Vargas had grave reservations about the 1934 Constitution under which he was now obliged to govern: it was in his view excessively liberal, far too restrictive of presidential power, giving too much autonomy to the individual states and therefore too much power to the state and regional political elites, including those defeated in the 1930 Revolution and the 1932 Civil War. It threatened to undermine his project for political centralisation, national consolidation, and economic and social conservative modernisation. And, most important, it restricted him to one term only of a little less than four years. The 1934 Constitution was destined for a short life.

In his hostility to the new Constitution Vargas had a strong ally in the military which had emerged stronger from the Civil War and on which he was more than ever dependent. The War represented an important new stage in the reorganisation and reequipment of the federal army. By the end of the War over 500 officers (10 percent) had been punished – 48 officers, including seven generals, transferred to the reserve or exiled, another 460 demoted or removed from active service. At the same time, promotions had been accelerated: by the end of 1933, thirty-six of the forty generals in

active service owed their positions to the Vargas administration.⁸ And the army had expanded to almost 80,000 officers and men. An important step had also been taken towards securing for the federal army a monopoly of force. The *paulista* Força Pública was much weakened; it was now more a state police force than a small state army. Of some concern to the military High Command (and Vargas), however, was the fact that the state forces of Rio Grande do Sul and Minas Gerais emerged from the War somewhat stronger.

The personal prestige of Góis Monteiro had been considerably enhanced by the Civil War. He was by far the most powerful figure in the military, and Vargas had recognised this by appointing him Minister of War in January 1934. Góis had by now developed a coherent body of ideas on national development and national defence, as can be seen in *A Revolução de 30 e a finalidade política do Exército*, a collection of his writings from 1932 and 1933 published at the beginning of 1934 and widely distributed in the army and outside, and in a letter to Vargas in January 1934 on being made Minister of War which appeared in the long *depoimento* (testimony) to the journalist Lourival Coutinho published as *O general Góes depõe* (1956). The evident deficiencies of the military, he argued, were closely related to the deficiencies of the Brazilian state, the Brazilian economy and Brazilian society. It was necessary to remove parasitic regional elites (and individuals), clean up the administration, develop the economy (not least industry, which could then supply the military with the arms it needed), face up to the social question (there were too many poor and ignorant Brazilians), strengthen the national spirit, and like Europe and the United States prepare both the army and the country for war. A liberal constitutional government would not be relied on to introduce the changes the country needed, nor deliver the arms and equipment and the men the federal army needed. He believed the military had a political role. But whereas for the generals of the Old Republic it had been essentially an instrument for preserving the power of the regional oligarchies, and for the *tenentes* it was to be an instrument of social revolution, for Góis it was an instrument of national (conservative) modernisation and regeneration. For him Kemal Atatürk was an outstanding model. He was also a great admirer of the German army. Góis offered Vargas military support for the

⁸ José Murilo de Carvalho, 'Vargas e os militares', in Maria Celina D'Araújo (ed.), *As instituições brasileiras da era Vargas* (Rio de Janeiro, 1999), p. 64.

establishment of a dictatorship and the adoption of authoritarian solutions to Brazil's economic and social problems in return for being allowed to continue rebuilding the nation's armed forces.

Getúlio's immediate concern, however, was to secure a strong position for himself and his government (no longer provisional) in Congress. Under the new Constitution elections for a Chamber of 300 deputies (250 by direct election, 50 indirectly by professional associations) and for state constituent assemblies were held on 14 October 1934. 2.7 million voters were registered, producing by far the largest electorate thus far in Brazilian history (though still relatively small). Once again the *situacionista* parties won substantial majorities in Minas Gerais, Rio Grande do Sul, the Federal District and throughout the North and Northeast. And this time Vargas secured the support of a majority of the deputies elected in São Paulo. In August 1933 as part of his policy of pacifying São Paulo in the aftermath of the Civil War he had appointed as federal *interventor* Armando de Sales Oliveira, a *paulista* businessman, the brother-in-law of Júlio de Mesquita Filho, owner of *O Estado de São Paulo*. Sales reorganised the state's party structure, creating the Partido Constitucionalista (PC) by merging the PD and dissident factions of the PRP, and established better relations with the federal government after the bitterness of defeat. For his part Vargas during the first half of 1934 issued first a partial then a general amnesty and included two *paulista* ministers – Vicente Rao (Justice) and José Carlos Macedo Soares (Foreign Relations) – in his first cabinet as newly elected constitutional president. In the October elections for Congress the PC won twenty-two seats, the old PRP twelve seats; in the elections for the state legislature the PC won thirty-four seats, the PRP twenty-two seats.

In April 1935 state governors (and federal senators) were indirectly elected by the state constituent assemblies turned state legislatures. This offered an opportunity for state opposition parties, but in the vast majority of cases the *interventores* originally nominated by Vargas were elected, that is to say, the elections simply legitimised the status quo. Only four *interventores* failed to be elected governor: in Pará, Maranhão, Santa Catarina and Ceará – and even in these states this did not mean the election of outright opponents of the regime. Vargas continued to work to strengthen ties between the state governments and the central government and to strengthen the state governors internally against their oppositions. He was prepared to intervene where no accommodation to the new power structure was forthcoming. The new governors, however, though supporters of Vargas, were also strongly federalist, even in Rio Grande do Sul and Minas Gerais. And

they still had their state militias. In Minas Vargas could totally rely on the loyalty of governor Benedito Valadares, formerly Olegário Maciel's chief of police, whom he had appointed *interventor* in December 1933. But in Rio Grande do Sul Flores da Cunha, with the Brigada Militar and ten corps of auxiliary troops at his disposal, was an increasingly independent and unreliable force in national politics.

A new concern for Vargas in the mid-1930s was the growing importance of two political movements outside Congress, each with a mass base and an ideology: the fascist Ação Integralista Brasileira (AIB) on the Right and the Communist-supported Aliança Nacional Libertadora (ANL) on the Left. They represented both a potential threat and, particularly in the case of the Communists who attempted a putsch in November 1935, an opportunity and excuse to institute first a state of siege and eventually an authoritarian regime (the Estado Novo).

Ação Integralista Brasileira was founded by the *paulista* writer and journalist Plínio Salgado in São Paulo in October 1932. Although it initially registered as a cultural and civic organisation, it was the first political organisation created after the 1932 Civil War. It quickly recruited 100,000 members, mainly in São Paulo and Rio de Janeiro. Its first public act was a march in São Paulo in April 1933 which attracted some 40,000 supporters. During 1934 the AIB recruited members in the North and Northeast and, after a visit by Salgado to Blumenau, Santa Catarina in September, in the South, where it was to find its greatest support, especially among Brazilians of German descent. (There were at the time 650,000 mainly German-speaking Brazilians: 180,000 in Santa Catarina, 400,000 in Rio Grande do Sul.) By the end of the year the AIB claimed a membership of 200,000. It was a remarkable phenomenon in view of the low level of urbanisation and the low level of popular political consciousness and mobilisation in Brazil at the time. The AIB was indeed the first mass political movement in Brazilian history.

Integralista ideology was a mixture of, on the one hand, conservative Brazilian nationalism which had its roots in the First World War and its aftermath and which had manifested itself in the arts, the press (*Revista Brasil*, *Brasiléia*, *Gil Blas*) and the student movement (*Ligas Nacionalistas*) and, on the other, European, especially Italian, fascist influences. The AIB was by far the biggest and most successful of several movements beginning with the *Legião Cruzeiro do Sul* in 1922 which attempted to emulate developments in Italy, and later Germany, although the AIB always insisted

on the differences between *Integralismo* and fascism and more particularly Nazism. It was, it claimed, more conservative, more Christian, more in harmony with the papal encyclicals *Rerum Novarum* and *Quadragesimo Anno*. Nevertheless, the AIB aimed at restructuring Brazil's political, social and economic system along fascist lines, replacing the 'liberal state' with a strong centralised 'integral' state under the control of a single, modernising party led by a charismatic, autocratic leader, which would reconcile the two Brazils – the economically and socially backward interior and the developed, cosmopolitan coastal areas – through national economic development (the growth of industry, agrarian credit, a national banking system, a national system of transportation and communications, etc.) and corporatist relations between state and society.

Like many similar movements throughout the world in the 1920s and 1930s the AIB was intellectually vague and often confused. Its October 1932 Manifesto referred to 'God, Fatherland and Family' and the organic unity of the nation, a concept elevated to mystical proportions. It embraced economic and cultural nationalism, anti-liberalism, anti-capitalism, anti-imperialism and anti-Communism. There was the usual rhetoric about international financial capitalism, that is to say, London and New York bankers, linked to international communism through an international Jewish network, though the AIB for the most part was not strongly anti-semitic and rarely engaged in physical violence against Jews or Jewish institutions. For Salgado and other prominent Integralista intellectuals like the *paulista* jurist Miguel Reale (author of *O estado moderno*, 1934) – Gustavo Barroso, President of the Academia Brasileira de Letras, a former Director of the Museu Histórico Nacional, Salgado's second-in-command and chief of the AIB's paramilitary militia was a notable exception – the role of Jews (and for that matter blacks) were relatively minor issues in Brazil. '*O problema do Brasil*', Salgado was fond of declaring, '*é ético e não étnico*'.

The AIB attracted mainly urban white-collar middle-class males – lawyers and other professionals, small businessmen, *funcionários públicos* (civil servants), the lower ranks of the military, and so forth – in Rio de Janeiro, São Paulo and other cities of the Southeast and South. Most were literate with at least a secondary school education, many were Brazilians of Italian, Polish and particularly, as we have seen, German origin. The Integralists competed with local branches of the NSDAP (Nazi) party for German-Brazilian support, especially amongst the young. (The AIB saw itself as the national manifestation of the international fascist movement, but avoided too close an identification with fascist Italy and especially

Nazi Germany and its diplomatic representatives. The Italian embassy provided some financial support; the German embassy did not, preferring to support the Nazi Party, not least because the Integralists favoured the total assimilation of all ethnic groups in Brazil as Brazilians.) At the same time the AIB also developed impressive roots in non-urban areas in states such as Bahia, Pernambuco, Ceará and Maranhão where it acted through traditional oligarchical channels, using well-established practices of patronage and clientelism to recruit and mobilise supporters. In some areas like Maranhão the support of the Church was critical to its success.

The AIB's organisation was strictly hierarchical with hundreds of district, municipal, state and regional branches, a national Chamber of four hundred, and at the top a Chamber of forty and a Supreme Council whose members were personally chosen by the *líder máximo*, Plínio Salgado. A great emphasis was placed on discipline, obedience to rules and procedures, rites and symbols. The party had its own paramilitary and secret service. Integralists wore green shirts (*camisas verdes*) with Sigma armbands and black leather boots. They gave the straight-arm salute accompanied by the cry '*Anauê*' (in the indigenous language of Tupi). The AIB developed pedagogic materials for the education of children (Integralist children were called *plinianos*), anthems and songs for every occasion, its own newspapers, magazines and radio broadcasting stations across the country. It could mobilise large numbers for highly disciplined street demonstrations and parades in the main cities.

Until late 1934 the AIB grew undisturbed by the federal or state governments. It had no official connection with the Vargas government, though many, including Góis, Filinto Müller, chief of police in the Federal District from 1933, perhaps Vargas himself, were sympathetic. After all, Vargas, the military and the AIB had in many respects a common agenda. The Integralists participated in the 7 September (Independence Day) celebrations in Rio in 1934 which represented a kind of official approval. It was even reported that Vargas and Góis returned the fascist salute as the Integralistas marched past. At the same time, there was growing concern in government circles at Salgado's demonstrations of strength through popular mobilisation and the potential threat he posed both to Vargas's own authority and to hierarchy and discipline in the military.

Vargas and the military were, however, more immediately concerned with the challenge from the Left than from the Right. The Brazilian Communist Party (PCB) was an illegal organisation. It had operated legally for less than a year in all since its foundation in March 1922. Its membership

at the time of the Revolution in 1930 (in which, as we have seen, it played no role) was probably no more than 1,000 – mainly intellectuals, journalists, teachers, doctors, lawyers and some junior army officers – and it appealed more to the urban middle class than to either the industrial proletariat or the peasantry. Denied registration in the 1933 elections for the Constituent Assembly, the PCB took advantage of the liberal opening in 1933–1934, the sense amongst many disaffected *tenentes* of a *revolução traída* (the revolution betrayed) and the challenge presented by the rise of fascism, both international and domestic (*Integralismo*), to increase its level of activity and widen its base. An Anti-Fascist Front which included socialists, anarchists and Trotskyists as well as Communists had been established as early as June 1933, and there were some violent clashes with the Integralists, notably the so-called *Batalha da Praça da Sé* in São Paulo on 7 October 1934.

On 23 March 1935 an Aliança Nacional Libertadora (ANL), a broad Popular Front of ‘progressive’ forces – Communist, socialist, *tenente* and even liberal democrat – against capitalism, fascism and imperialism was launched. Its President was Hercolino Cascardo, a naval *tenente* who had taken part in the São Paulo rebellion in 1924, become a member of the *Clube 3 de Outubro*, and served under Vargas as *interventor* in Rio Grande do Norte. The executive committee consisted largely of *tenentes* but included three civilians – a journalist, a doctor and a lawyer. The PCB itself did not formally join, but was from the beginning the dominant organisation in the ANL. At its first rally on 30 March in the Teatro João Caetano in Rio de Janeiro Luís Carlos Prestes was nominated Honorary President *in absentia* (by a young Communist student, Carlos Lacerda, who was to become a prominent politician on the Right in the 1950s and 1960s). Prestes, who had refused to join the PCB in exile in Buenos Aires in 1929–1930, had finally been recruited to the cause of world revolution. In October 1931 he had moved to Moscow where he lived for the following three years, working as an engineer. Although still not a party member (he finally joined PCB only in August 1934) he was a member of the Comintern’s Executive Committee. Prestes left Moscow in December 1934 with his companion Olga Benario, a young German Jewish Communist. They arrived in Rio the following April. Prestes joined the ANL in June.

By this time the ANL had hundreds of *núcleos*, especially in Rio, probably 70,000–100,000 members (it claimed 400,000), and its influence was growing rapidly. It advocated land redistribution, the nationalisation of foreign enterprises and an end to Brazil’s unequal ties with the United

States and Britain, state support for the ‘productive forces of the nation’, extensive social welfare legislation, universal and free primary education – and mandatory, universal suffrage. Like the AIB, however, it appealed mostly to the urban middle class. Its links to organised labour were weak, and the rural population remained indifferent. Nevertheless, on 5 July (the anniversary of the first *tenente* rebellion in Copacabana in 1922) the ANL issued a Manifesto calling for a nationwide uprising and the creation of a popular revolutionary government. Within a week, on 11 July, invoking its powers under a wide-ranging *Lei de Segurança Nacional*, the Vargas government closed it down – to the particular satisfaction of the AIB. The National Security Law was a measure introduced in late January on the advice of Antônio Emílio Romano, head of the Delegacia Especial de Segurança Política e Social (DESPS), a special force which monitored ‘subversive’ political and social organisations, and passed by Congress in April (with the support of many so-called liberals). Its purpose was to enable the government to bring before special tribunals not only such crimes as overt attempts to overthrow the government by force but strikes by civil servants, provocation of the military to disobey the law, printing and distributing subversive propaganda, and the organisation of associations or parties aimed at subverting political or social order. Troops raided the offices of the ANL, confiscated its literature, and arrested its leaders, who were subjected to summary trial and jailed.

Driven underground after only four months the ANL (and the PCB) continued to plan for revolution. And now the Soviet Union became involved. The Comintern had ‘discovered’ Latin America at its Buenos Aires meeting in June 1929, but it was never high on the agenda until a meeting of Latin American Communists in Moscow in October 1934 at which there was a debate over the tactics for achieving power in Latin America: through the formation of anti-imperialist, anti-fascist Popular Fronts to contest elections or through armed revolution? The General Secretary of the PCB, Antônio Maciel Bonfim (‘Miranda’), painted an exaggerated picture of a revolutionary situation in Brazil where, he claimed, the *tenentes* had demonstrated the possibilities of armed insurrection. In the end, the Seventh Comintern Congress in July 1935 approved anti-fascist Popular Fronts of the kind adopted in France and Spain (alliances with other working-class, and middle-class, parties) for Chile and armed revolution for Brazil. In the meantime, at the end of 1934 and the beginning of 1935 not only Prestes but a number of Soviet agents, including the

German Arthur Ernst Ewert (Harry Berger on his American passport) and the Argentine Rodolfo Ghioldi, had been sent to Brazil to coordinate a possible Communist revolution there.

What the Brazilian military has ever since called the Communist *intenção*, the attempted putsch of November 1935, was essentially a series of minor, poorly coordinated military insurrections led by sergeants, corporals and privates (and in Rio some lieutenants) discontented over pay and recruiting practices, in some cases hostile to the Vargas government, and influenced as much if not more by *tenentista* than by Communist ideology and sympathies. Luís Carlos Prestes, fundamentally still more a *tenente* than a Communist, had always believed it would be easier to carry out a 'true social revolution' leading to a Soviet-based government of workers and peasants in Brazil from the barracks than the factories or the fields. There was little involvement by industrial workers, and none by peasants, in the insurrections that took place over four days (23–27 November) in Natal, Recife and Rio de Janeiro. And, except to some extent in Rio, they were not essentially conceived, masterminded or even coordinated by the ANL, the PCB, Prestes or Comintern agents.

On 23 November 100 or so men (*praças*) and some sergeants of the twenty-first Light Infantry battalion in Natal, Rio Grande do Norte, who had nothing to do with the PCB, rose in rebellion. They were relatively successful: the governor was forced to seek refuge first in the Chilean consulate, then on a French ship. They had some popular support in Natal and managed to hold out for four days before being overwhelmed. On 24 November sergeants of a battalion of the twenty-ninth Light Infantry in Recife had rebelled. Here there was some Communist involvement. But the rebellion was suppressed after only one day. More seriously, on 27 November in Rio de Janeiro the third Infantry regiment at Praia Vermelha (1700 men) rebelled in support of the uprising in Natal. This rebellion had been organised by Prestes and the PCB (although in less than forty-eight hours). There was also some mobilisation of civilians. But, crucially, the Vila Militar in Realengo did not join the rebellion. The rebels came under naval and air force bombardment, and the rebellion was put down by federal forces of the first Military Region under the command of General Eurico Dutra. There was no need for Vargas to accept Plínio Salgado's mischievous offer, wired from Bahia, to send 100,000 Green Shirts to maintain order in the capital. More than 250 participants, civilian and military, were arrested. In all, between twenty and thirty soldiers lost their lives in these three rebellions, most of them died in Rio de Janeiro.

In the final analysis the communist insurrection of November 1935 proved to be more important for the use made of it by the military and the Vargas government than in itself. For the military it provided another opportunity to carry out a purge of young officers attracted to the ANL and the Communist party. Over 100 officers and over 1,000 noncommissioned officers and soldiers were expelled. Many more were imprisoned, transferred, or put under a severe warning. Further organisational reforms were introduced to reduce the possibility of future Communist infiltration of the military. For Vargas it provided a reason (or rather an excuse) for a political *fechamento* (closure), which was supported not only by the military but by a political elite hitherto divided on the need for a more centralised, authoritarian regime.

On 25 November, proclaiming a national emergency in the struggle against communism, Vargas requested, and Congress approved, the imposition of a thirty-day state of seige, which gave the government exceptional powers and instruments of control and repression in addition to the existing Law of National Security which had been used to close down the ANL. A month later the state of seige was renewed for a further 90 days. On its expiry in March 1936 a state of war was decreed by the executive – again after approval by Congress (although this time with some dissent). This was to be successively renewed for 90 days in June, September, December and finally in March 1937 (extending the state of war to June 1937) – each time with a Congressional majority of more than 100. In addition, from January 1936 a Comissão de Repressão do Comunismo under its zealous first president, Adalberto Correia, federal deputy for Rio Grande do Sul, exercised extensive powers to pursue and lock up not only Communists but also socialists, anarchists, Trotskyites and so forth – and their sympathisers.

During the first half of 1936 thousands on the Left broadly defined were vigorously persecuted – dismissed from their posts, arrested, imprisoned and in some cases tortured. Harry Berger, Gregório Bezerra and Carlos Marighella, for example, were tortured – Berger savagely so. In March 1936 Luís Carlos Prestes and Olga Benario were detained in Meier, Rio de Janeiro, having been betrayed by Rodolfo Ghioldi. And in September Olga, seven months' pregnant at the time, was deported to Nazi Germany and a prison in Berlin. (She was later transferred, first to Ravensbruck and then to Bernburg concentration camp where, in April 1942, at the age of thirty-three, she died in the gas chamber.) Journalists, writers and intellectuals were also imprisoned, most famously the novelist Graciliano Ramos, who wrote the classic *Memórias do cárcere* (published posthumously in 1953)

about the experience. Not even parliamentarians were exempt. In March 1936 several opposition members of Congress – Senator Abel Chermont (Pará) and deputies Abguar Bastos (Pará), Domingos Velasco (Goiás), João Mangabeira (Bahia) and Otávio da Silveira (Paraná), members of a Grupo Parlamentar Pro-Liberdades Populares founded in November 1935 when the National Security Law was passed, were imprisoned for alleged communist sympathies. From October many opponents of the regime, real and alleged, were brought before the Tribunal de Segurança Nacional in Rio de Janeiro, an organ of the Justiça Militar, the creation of which had been discussed at a meeting of ministers as early as December 1935 and which had finally been approved by Congress in September 1936.

Apart from Luís Carlos Prestes, the most high profile victim of this wave of repression was Dr Pedro Ernesto, a *tenente civil* in 1930, who had been appointed by Vargas *interventor* in the Federal District in September 1931, opposed the Constitutionalist Revolution in São Paulo in 1932, supported Vargas for president in 1934, and been elected (indirectly elected by the municipal council) *prefeito* (mayor) of the Federal District in April 1935. He had, however, shown himself sympathetic to the ANL and had adopted an increasingly ‘populist’ rhetoric – the first politician in the history of Rio de Janeiro to appeal to the poor of the favelas, the first to make political use of the radio. He was arrested and removed from office in April 1936, and sentenced to three years in prison for alleged Communist activities.

The state governors had generally supported the exceptional measures first introduced in November 1935, but several were concerned that Vargas might use them to weaken further state autonomy. In particular, they feared that, as proposed in the 1934 Constitution, state militias would be brought directly under federal government control and absorbed in regional military commands as part of the ongoing construction of a stronger national army. Even Valadares in Minas Gerais, Getúlio’s closest ally amongst the state governors, expressed some concern. But it was the governor of Rio Grande do Sul, Getúlio’s home state, Flores da Cunha, a decisive ally in the defeat of São Paulo in 1932, who became the most vocal defender of state autonomy – and of state militias. As early as September–October 1936 preparations were made for a possible federal intervention in Rio Grande do Sul. Góis Monteiro was made Inspector of the South and West military regions, which included São Paulo, Minas Gerais and Rio Grande do Sul. When Minister of War General João Gomes, who had replaced Góis in May 1935 and done a good job in terms of military discipline and rearmament, showed signs of vacillating over intervention in Rio Grande

do Sul and eventually resigned (on 3 December), he was replaced, on Góis' recommendation, by the commander of the Rio de Janeiro Military Region, General Eurico Dutra, who would have no such scruples. Dutra was to remain Minister of War until 1945, and it is ironic that he, an army administrator, less of an intellectual, less politically ambitious than Góis, should become president of the Republic at the end of the Estado Novo.

During 1936 the issue of the presidential succession began to complicate the political scene. Under the Constitution of 1934 President Vargas was to serve one four-year term only. He could not be reelected and could not, therefore, be a candidate in the direct presidential elections scheduled for January 1938. Vargas had never showed much enthusiasm for competitive elections, and he was unlikely ever willingly to give up the presidency. Apart from his own personal interest in remaining in power, the main objectives of the 1930 Revolution, as he had interpreted them, had not yet been fully secured. They were now threatened not only by what he saw as new forms of political extremism on the Left and on the Right but also by the possibility of sections of the old regional oligarchies, especially in São Paulo and in Rio Grande do Sul, returning to power by means of a presidential election. There is evidence in, for example, the correspondence of Agamenon Magalhães, Minister of Labour and close associate of Vargas, to Juraci Magalhães, governor of Bahia, that as early as June 1936 Vargas had adopted *uma estratégia continuísta* and intended to do everything necessary to stay in power.⁹

There were two only ways available to him: an extension of his mandate by constitutional amendment or a *golpe* leading to a dictatorship. He was increasingly confident, though not yet certain, that he could count on the backing of the military for either strategy. The governors of the big states, however – Armando Sales (São Paulo), Benedito Valadares (Minas Gerais), Flores da Cunha (Rio Grande do Sul), Lima Cavalcanti (Pernambuco) and Juraci Magalhães (Bahia) – though all officially pro-Vargas were also (except Valadares) strongly against his continuation in power. Getúlio remained publicly (and for the most part privately) silent on the question of the presidential succession throughout 1936 insisting, despite growing suspicions of his intentions, that the elections would take place but that campaigning should not begin until January 1937. His own preference, it seemed, was for a single consensus candidate (*candidato único*). Names

⁹ Juraci Magalhães, *Minhas memórias provisórias* (based on interview with Alzira Alves de Abreu, CPDOC) (Rio 1982), p. 106.

that generated the most speculation included: Antônio Carlos Ribeiro de Andrada, Oswaldo Aranha, José Carlos Macedo Soares, Flores da Cunha, Benedito Valadares and Góis Monteiro.

The first openly to declare himself a potential candidate for the presidency was Armando de Sales Oliveira, whom Vargas had appointed São Paulo interventor in August 1933, who had formed the Partido Constitucionalista (the old PD together with dissidents from the PRP) in February 1934, and had then been indirectly elected governor in April 1935. The deadline for the resignation of governors and ministers who wished to run for president was 2 January 1937. Sales resigned on 29 December 1936. He initiated a voter registration drive and a fund raising campaign the following April and officially launched his candidacy on 15 May. By July he had become the candidate of a political organisation which aspired to become a national party, the União Democrática Brasileira.

Sales was supported by the majority of the *paulista* political class – the Liberals of 1930 and the Constitutionlists of 1932, both defeated, the PD and most of the PRP, now united in the PC, the representatives of the ‘*classes conservadores*’ or what outsiders preferred to call the agricultural, industrial, commercial and financial ‘*plutocracia*’, and the urban middle class. He insisted that he was not opposed to strong presidential executive power, not in favour of state autonomy at the expense of national unity, not against the new economic and social functions assumed by the state since 1930, not against the military as the guardians of nation security and social stability, and no less committed than Vargas to the defeat of extremism, both Left and Right. (A *paulista* Minister of Justice, Vicente Rao, had introduced the state of siege in November 1935 – and he had the support of the *paulista bancada* in Congress.) But as a liberal constitutionalist and democrat Sales favoured a greater measure of state autonomy as a protection against excessive centralisation of power at the federal level and free, competitive elections with a secret ballot for president in 1938. He was against an official *candidato único* for the presidency which would represent a return to the politics of the Old Republic. And he was against any extension of Getúlio’s mandate, ‘*pacífica ou violenta*’.

Sales was initially supported by opposition parties and politicians in a number of states, including Minas Gerais, Bahia and Pernambuco as well as the Federal District. And he looked for allies among the *situationista* governors. Though many had good relations with him and regarded him as well qualified, perhaps best qualified of them all, to be president, and although they themselves were in favour of state autonomy and against

continuismo, especially by means of a *golpe*, most in the end would not give him their support. Victory for Sales would be a victory for the state of São Paulo, *paulista* revenge for the defeats of 1930 and 1932 through the new rules of open political competition. Moreover, for the governors of the Northeast like Lima Cavalcanti, a victory of Sales would lead to 'a escravidão do Norte', Brazil once again 'no domínio da plutocracia paulista'. Finally, Sales had in effect made himself an opposition candidate and they were not prepared for such open confrontation with Vargas. Bahia, Pernambuco and the smaller states were too dependent on the federal government, politically and financially, to step too far out of line. Crucially, Valadares in Minas Gerais held firm, determined to stay with his political creator and oppose the return of the São Paulo oligarchy to power. Only Flores da Cunha in Rio Grande do Sul, who was already in dispute with the Vargas regime and expecting some kind of military intervention in his state, openly backed Sales for the presidency.

As late as February 1937 Getúlio was insisting that he remained neutral, that he had no preferred successor, and that he would respect the result of the election whatever it was. But after Sales declared himself a presidential candidate, uniting the opposition and refusing to withdraw in favour of a *candidato único*, and especially after he had cemented his disturbing and potentially dangerous alliance with Flores da Cunha, whom he had always expected to be the major focus of any resistance to his continuation in power (there had been rumours of arms purchases by São Paulo and Rio Grande do Sul) Vargas began quietly encouraging Valadares and the northern governors to begin the search for an alternative, more acceptable candidate. He also made use of Oswaldo Aranha's contacts with the opposition in São Paulo (mainly the PRP) and Rio Grande do Sul (the PL and the PRR) to create internal rifts in the Sales camp. A northern candidate was especially attractive to the governors of Pernambuco and Bahia whose states had suffered a long decline, economic and political, during the Old Republic and for whom first the Revolution of 1930, then the Vargas regime, and now the presidential succession offered the prospect of recovering lost ground. In this they were strongly encouraged by Juarez Távora, Vargas' former so-called Vice-Rei do Norte, who had left politics after the promulgation of the 1934 Constitution but who remained a powerful voice in North and Northeastern politics.

On 25 May, ten days after Sales had formally launched his campaign, José Américo de Almeida was named as the government's candidate for the presidency at a National Convention in the Palácio Monroe in Rio de

Janeiro presided over by Governor Valadares of Minas Gerais and attended by representatives of the majority parties in eighteen states (and opposition parties in São Paulo and Rio Grande do Sul). Almeida was a writer (the author of the classic social novel of the Northeast *A bagaceira*, 1928) who had been the personal secretary of governor João Pessoa of Paraíba (Vargas's running mate in March 1930 whose assassination in July had triggered the October Revolution), one of the leaders of the Revolution in the Northeast, one of the founders of the Clube 3 de Outubro, and Minister of Transport and Public Works in the provisional government 1930–4. He had been elected senator in 1935 but had withdrawn from politics when he failed to be elected president of the Senate and '*arquivado*' (shelved, forgotten) by Getúlio as Minister of the Tribunal de Contas. Almeida had the public support of the governors and the governing parties of all the states except São Paulo and Rio Grande do Sul, where the opposition parties gave him their support. He was thus more than simply '*o candidato do Norte*'. And his candidacy was greeted with enthusiasm by many of Brazil's leading intellectuals. Among the hundreds who signed a manifesto of support of José Américo in July were Oliveira Viana, Monteiro Lobato, Graciliano Ramos, Gilberto Freyre and José Lins do Rego. If Armando Sales represented the opposition to Vargas and his regime, José Américo de Almeida represented the continuation of the Vargas regime – but by election and without Getúlio.

José Américo's position was from the outset extremely ambiguous. He was the '*candidato oficial*' without ever having the full support of Vargas who, as we have seen, basically had no interest in *any* candidate as his successor. For Vargas, Almeida was necessary and useful for the purpose of undermining Sales' position – nothing more. And Almeida made it easier for Vargas to undermine *him* when the time came by adopting positions clearly unacceptable not only to Vargas but to those who identified with the Vargas project and had originally supported him. During the election campaign, he emerged as a democrat and something of a radical populist, '*o candidato oficial com discurso oposicionista*'. And on his various '*caravanas eleitorais*' he not only advocated the separation of executive, legislative and judicial powers, defended political rights and civil liberties and criticised personal presidentialism but, having to appeal to a much greater electorate than had official candidates under the Old Republic, he attacked his opponent Sales as elitist and conservative, the candidate of the *paulista* plutocracy, serving the interests of foreign capital, and presented himself as the candidate of the 'poor and forgotten' ('*os pobres e deserdos*') as well as

the middle classes, denouncing the conditions under which most Brazilians lived and promising to improve public services, especially housing and transport, break up the large landed estates, extend social welfare provision and distribute wealth as well as clean up public finance and administration.

By this time there was a third candidate in the field. Plínio Salgado, the leader of the *Integralistas*, had announced his candidacy in May (precisely in between the declarations of Armando Sales and José Américo de Almeida). Membership of the AIB had grown substantially since the creation of the ANL and, more particularly, since the events of November 1935. Early in 1936 it was claiming 800,000 members in 2,000 branches, by the end of 1936 1.3 million members in 3,000 branches, a wild exaggeration no doubt but nevertheless establishing the AIB as by far the largest fascist party in the Western Hemisphere. Some state governments had introduced repressive measures to control it, but the federal government took no action. As the Vargas regime moved to Right after November 1935, the ideological affinities between the federal government, the military and the Integralistas became clearer. They were all antiliberal, anti-Communist, nationalist and believers in a strong state. Góis Monteiro, in particular, was a great admirer of Mussolini and Hitler (and Stalin!). At the end of 1936 and beginning of 1937 there were informal contacts between the leaders of the AIB and some of those closest to Vargas, including Aranha, and rumours of secret negotiations for a political alliance. Despite some internal opposition from those who were against playing the electoral game, the AIB decided to run its own candidate for the presidency and hold a plebiscite on the issue. To the surprise of no one, Salgado secured the overwhelming support of the AIB membership (850,000 votes, it was claimed). Gustavo Barroso and Miguel Reale had less than 1 percent of the vote each.

The presidential elections scheduled for January 1938 were threatening to produce a result unacceptable to Vargas and the military: either a 'liberal-democratic' president (Armando Sales) representing the dominant interests (still principally coffee) of São Paulo which they had defeated in 1930 and 1932, strongly supported now by Rio Grande do Sul, both states fiercely opposed to the government in Rio de Janeiro and its centralising and modernising project, or a 'democratic-populist' president (José Américo de Almeida) primarily committed to improving the lot of the poor and dispossessed. (Less likely was the victory of Plínio Salgado, who was in any case always willing to collaborate with Vargas and who could easily be co-opted if and when necessary.) Vargas and his closest allies were now engaged in a complex political game. As well as working against

Sales, whose campaign was given a late boost when the popular former mayor of the Federal District, Pedro Ernesto, was released from prison on 13 September and immediately offered to support the campaign against the Vargas 'dictatorship', they had now to undermine José Américo, their own candidate.

José Américo was accused of communist sympathies (it is true that he had the support of the PCB, except in São Paulo) and, more bizarrely, of creating the conditions for Civil War in Brazil like those in Spain. It was not difficult to persuade most state governors to abandon José Américo: they were always inclined to follow Vargas's lead and the conservative forces in their states were deeply alarmed by the official candidates' radical political discourse. There were rumours of a search for a possible third candidate (or fourth if Salgado were included) further to confuse and undermine the candidacies of both Sales and Almeida. The name most often mentioned was that of Oswaldo Aranha, Minister of Justice 1930–1931, Minister of Finance 1931–1934, Brazilian ambassador in Washington since 1934 and probably Vargas's closest political ally. But Vargas was not truly interested in launching any new candidate. In any case it was now too late. And to extend Vargas's mandate legally through Congress was not thought to be politically possible. Throughout August and September there were rumours that plans for a *golpe* to abort the elections and establish a dictatorship headed by Vargas and supported by the military were now well-advanced.

There were three important preconditions for the planned *golpe* to be successful. Fundamental, of course, was the unreserved support of the military. In June General Dutra, the Minister of War, initiated a series of changes of military command in order to remove any remaining resistance to intervention in Rio Grande do Sul, if that proved necessary, and ultimately to a coup. In July, at Dutra's insistence, Góis Monteiro was made Army Chief of Staff. Dutra and Góis, with their own agenda but complementary to that of Getúlio, together represented total military alignment with the essence of the '*projeto getuliano*' as they understood it: centralised government against regional interests, no necessity for elections and representative government, social and political peace for economic development, a professional, modernised army sufficient to deal with internal and external enemies in a dangerous world. The Army had toyed with the idea of remaining in power after the coup which deposed President Washington Luís in October 1930. But in 1937 neither Dutra nor Góis wanted to establish an outright military dictatorship: the unity of the military was

recent and precarious; they did not wish to risk the possibility of internal rivalries for power leading to renewed fragmentation and indiscipline. The military high command at a meeting in September recognised that it was in the best interests of the military to remain in the background and give unconditional support to the civilian leadership of any *golpe*.

A second precondition for the success of the plan to keep Vargas in power was the support of some key state governors, especially the governors of Minas Gerais and São Paulo. Valadares and the *mineiro* state militia, the Força Pública, were crucial because it would probably be necessary to overthrow governor Flores da Cunha in Rio Grande do Sul, the last bastion of old state power, where the local military forces, 6,000 state militia and 20,000 provisionals, remained stronger than the federal troops stationed there. Valadares made it a condition of his support for intervention that, except for two battalions, the Força Pública would not be federalised and would remain under his command. In view of recent history (the Civil War of 1932) and Flores da Cunha's support for Armando Sales, the *paulista* candidate in the presidential elections, the governor of São Paulo, José Joaquim Cardoso de Mello Neto, could not reasonably be expected to support intervention in Rio Grande do Sul, but he was persuaded not actively to oppose it. The *mineiro* federal deputy Francisco Negrão de Lima, who was at the time secretary of the national Pro-José Américo committee, acting on behalf of Valadares, was despatched to the states of the North (except for Bahia and Pernambuco which were now regarded as firmly anti-Vargas) to secure confirmation that the governors there were willing to withdraw their support of José Américo and would accept the cancellation of the elections and the continuation of Getúlio's mandate (as well, of course, of their own).

Thirdly, it would be important to secure broad popular support for, or at least indifference to, the planned coup. In order to create the political climate, and justification, for a transition to permanent authoritarian government the regime decided to breathe new life into the Communist threat. On 27 September Góis and Dutra 'discovered' the Cohen Plan (the Jewish name was not accidental). This document purported to detail a supposed communist plot to overthrow the government. In fact, it was a forgery written by Captain Olímpio Mourão Filho, an intelligence officer on the army general staff, who was an Integralist, a member of the AIB's Council of 400 and the organiser of its paramilitary forces. (Twenty-five years later, in 1964, Mourão, then a general, initiated the coup that brought to an end Brazil's postwar experiment with democracy.) The 'Plan' had already

been rejected by Plínio Salgado who found it too fantastical (all known communists were in prison or in exile). But it was divulged to the press on 30 September and used by the regime to argue that once again, as in November 1935, the *pátria* was in grave danger.

On 1 October Congress approved by 138 votes to 52 in the Chamber of Deputies and twenty-one votes to three in the Senate a decree introduced by Minister of Justice Macedo Soares re-establishing the state of war which had only been lifted in June (after eighteen continuous months in force since the events of November 1935). The supporters of Armando Sales protested that a state of war was incompatible with free elections – which was precisely the intention. Another wave of repression followed. The usual suspects, and more, were rounded up. To be less than enthusiastically anti-communist, to be *indiferente*, was to be regarded as a communist and an enemy of the state. To ensure that the governors of São Paulo and Rio Grande do Sul enforced the newly declared state of war the *paulista* Força Pública and the *gaúcha* Brigada Militar were brought under the command of the Second and Third Armies respectively. When on 17 October Flores refused to obey, he was provoked into resignation and exile in Uruguay to avoid federal intervention, which Getúlio then decreed in any case. In a series of *intervenções brancas* state militias elsewhere, except Minas Gerais as previously negotiated by Valadares, were placed under the control of regional military commanders. Only Juraci Magalhães in Bahia registered concern at this significant step on the road to dictatorship. On 24 October Vargas met with Minister of Justice Macedo Soares, Minister of Labour Agamenon Magalhães, Governor Valadares of Minas Gerais, and Generals Dutra, Góis and Newton Cavalcanti (an Integralist) to agree a ‘constitutional reform’ which Francisco Campos had been preparing for several months. (According to Getúlio’s diary, the ‘reform’ was ready as early as April 1937.) The state governors were simply informed.

José Américo de Almeida had already accepted the inevitable and withdrawn from the presidential race without protest. Plínio Salgado had also accepted that his bid to become president had failed. He had calculated that even if the elections were held he could not hope for the support of more than 10 percent of the electorate. He had been consulted by Campos on the new ‘Constitution’, and although there was no formal deal, an informal understanding with police chief Filinto Müller, Dutra, and finally Vargas himself led him to believe that the AIB would form an integral part of the ‘New Order’ to be established after the golpe and that he personally would be rewarded with a cabinet post, probably Education. When on

1 November 50,000 *Integralistas* (Vargas in his diary said there were only 20,000) marched in front of Catete Palace in Rio de Janeiro in an impressive demonstration of force, Salgado had also, like José Américo, already withdrawn from the presidential race – in solidarity with Getúlio and the armed forces in the fight against ‘communism and anarchical democracy’.

This left only Armando Sales. When on 8 November Salles made a last ditch appeal to the *chefes militares* to guarantee ‘democratic’ institutions in Brazil – an appeal that was read out in both the Chamber and the Senate, he only succeeded in having the coup brought forward by five days, from 15 November to 10 November. After Dutra had ordered that federal troops should not be used, Congress was surrounded and closed down by the military police of the Federal District under the command of Filinto Müller. Vargas made a radio address to the nation announcing that the January elections were cancelled and that he would continue as president. Armando Sales was placed under house arrest (and later went into exile). Although there was no open involvement of the Army in the *golpe*, Getúlio had no doubt to whom he owed his continuation in power. He had been put in power by a coup in November 1930; he was kept in power by a coup in November 1937. He would be removed from power by a coup in October 1945. And he would kill himself in August 1954 to avoid another coup.

The *golpe* leading to the establishment of an authoritarian Estado Novo was a *golpe silencioso*.¹⁰ It encountered no serious resistance. The military was disciplined and united behind the coup, with only a few dissenting voices among senior officers – *ex-tenentes* Eduardo Gomes and Osvaldo Cordeiro de Farias, for example. Only one minister, Odilon Braga (Agriculture), resigned, although Osvaldo Aranha also resigned as ambassador in Washington. After the intervention in Rio Grande do Sul, and the removal of Governors Juraci Magalhães in Bahia and Lima Cavalcanti in Pernambuco, who had been less than enthusiastic about the coup, all the states, whose financial autonomy and military power had in any case been severely curtailed, were in the hands of pro-Vargas elements. Congress which had approved the state of war on 1 October was largely intimidated. On the day of the coup the *mineiro* federal deputy Pedro Aleixo sent a letter of protest to the president, but eighty parliamentarians publicly demonstrated their solidarity with Vargas, even as their building was being closed. The liberal

¹⁰ From the title of the most important study on the 1937 *golpe*: Aspásia Camargo et al., *O golpe silencioso. As origens da república corporativa* (Rio de Janeiro, 1989).

constitutional opposition to Vargas, inside and outside Congress, had been steadily outmanoeuvred during the seven years since the Revolution of 1930. The Communist Left – never really a major threat in Brazil but it was always useful to pretend that it was – had already been largely repressed. A few on the Left found themselves in difficulties because they recognised a coincidence between at least some of their fundamental aims – especially national integration and national economic development – and those of Vargas.¹¹

The coup was positively welcomed by the Integralists who, as we have seen, expected to play a major role in the New Order, by the Catholic Church, which was deeply antiliberal, anti-Communist, and a defender of the kind of corporate order Vargas intended to establish, and by the economic elites among whom there was by now a general acceptance of Getúlio's (and the military's) national project for state-led economic and social development and conservative modernisation under an authoritarian political regime. The *paulista* industrialist Roberto Simonsen, for example, vice-president of the Centro das Indústrias do Estado de São Paulo and senior consultant to the Conselho Federal de Comércio Exterior (which had much wider responsibilities than its name suggests and was possibly Brazil's main economic decision-making forum), who had supported Júlio Prestes in 1930 and the Constitutionalist Revolution in 1932, gave his full support to the *golpe* in 1937, as did Euvaldo Lodi of the Confederação Nacional da Indústria and Américo Giannetti of the Federação Industrial de Minas. Landowners, whether in nonexport or export agriculture, also supported the establishment of the Estado Novo, not least because Vargas had no interest in agrarian reform and no intention of extending existing and future labour and social welfare legislation to the 70 percent of Brazil's population in the primary sector (nor of improving the level of their education). They would remain poor, ignorant – and docile. (This was the so-called implicit *pacto de compromisso* between Vargas and the landed class.) Sections of the urban middle class were attracted to the Estado Novo by the expected growth of jobs in the state bureaucracies, sections of the urban working class by the social legislation to be implemented through the government-controlled *sindicatos*. And, not least, the creation of the Estado Novo found considerable intellectual support from many

¹¹ This was the position in which, for example, Roberto Sisson, former Secretary of the ANL, in exile in Uruguay, found himself. See José Murilo de Carvalho, *Forças armadas e política*, *op. cit.*, p. 213, n. 72.

prominent jurists, political philosophers and social scientists. The 1937 coup was a reflection of the growth of nationalist sentiment in Brazil and the crisis of economic and political liberalism throughout Europe and the Americas, including Brazil, in the aftermath of the First World War, the Russian Revolution and the 1929 Depression.

The establishment of the Estado Novo in 1937, more than the overthrow of the First Republic in 1930 and the crushing of the Constitutionalist Revolution in 1932, represents the final defeat of regional oligarchical political power in Brazil and at least a temporary defeat for liberal constitutionalism and representative political institutions (Congress, state assemblies, political parties and elections). It is tempting to see the Estado Novo as the logical and inevitable outcome of a series of political events that began with the 1930 Revolution. But victory for the political (and military) forces in favour of centralisation and authoritarianism was not inevitable. Vargas's convictions and inclinations were authoritarian and he developed a taste for personal power but, as we have seen, he was frequently ambiguous and vacillating, and always pragmatic. He did not start out with a ready-made project for state and nation building, economic development and modernisation, or closer relations between state and society, especially organised labour. He was in part influenced by profound economic and political developments elsewhere in the world – particularly in Europe and the United States. And there were intense internal political struggles along the way – with the regional political elites, especially in São Paulo, with former allies like Flores da Cunha in Rio Grande do Sul, with the *tenentes*, with the liberals, with the Left and, to a lesser extent, the Right. Enemies had to be defeated, resistance neutralised, new alliances forged for his emerging project. In particular, he became tied to the success of the parallel project of Generals Góis Monteiro and Dutra for a strong, united military which in turn required a strong state. It was a complex power game managed with great skill and competence. But the outcome was by no means a foregone conclusion.

If, for example, Washington Luís had not insisted on Júlio Prestes as his successor in 1929, if Minas Gerais, not Rio Grande do Sul, had provided the opposition candidate in the elections of March 1930, if João Pessoa had not been assassinated in July, if Luís Carlos Prestes, not Góis Monteiro, had commanded the rebel troops in October, if the *tenentes* had been able to form a revolutionary party after Vargas came to power, if Minas Gerais and Rio Grande do Sul had supported São Paulo in 1932, if there had not been a perceived Communist threat in 1935, if Góis had not been successful in

rebuilding and reorganising the federal army, if the liberals in Congress had had more backbone, if the leading candidates in the presidential election campaign in 1937 had acted differently, even perhaps if São Paulo and Minas Gerais had supported Rio Grande do Sul in October 1937 (though by then it was too late), the outcome could have been different.

THE ESTADO NOVO, 1937–1945

For eighteen months, between November 1935 and November 1937, apart from three months July–September 1937, Brazilians had lived under a continuous state of siege or war. For the next eight years – until the end of the Second World War – they were to live under an authoritarian dictatorship, the state of siege or war made permanent. President Getúlio Vargas, backed by the military, exercised practically unlimited power. Indeed the Estado Novo represented the greatest concentration of power in the history of Brazil since independence. There were no elections, no political parties, no Congress or state assemblies, that is to say, no politics in the institutional sense. Vargas and his political and military allies would concentrate on the tasks of state building, the reform of federal public administration, national integration, state-led national economic development, and building new relationships between state and society, especially the urban working class.

The *Carta* of the Estado Novo, drafted by Francisco Campos and promulgated on the very day of the coup, 10 November 1937, was more of a decree-law than a Constitution. And it was not, despite distinct corporatist influences from Salazar's Portugal, Mussolini's Italy and Pilsudski's Poland (it was commonly referred to as the '*Polaca*'), a wholly authoritarian 'charter', though extremely nationalistic, not to say xenophobic, in tone. It recognised, for example, a legislative branch of government, a Parlamento Nacional, with an elected Chamber of Deputies and a 'Federal Council' (instead of a Senate) consisting of one elected representative for each of Brazil's twenty states plus ten members nominated by the president. It also guaranteed basic civil liberties. However, under the Constitution's 'final and transitory articles' (*disposições transitórias e finais*), Articles 175–187, a state of emergency was imposed throughout the country (which was never revoked), political rights were denied and civil liberties suspended (and never restored), Congress, state assemblies and municipal councils were dissolved (and never reopened), elections were cancelled (and never rescheduled), and the president empowered to legislate by decree (a power he retained throughout the Estado Novo). The judicial power was also

weakened; judges, for example, no longer had life tenure and were frequently subject to political pressure. In his book *Brazil under Vargas* published in 1942 the American political scientist Karl Lowenstein wrote that article 186 of the Constitution was the ‘essence’ of the Estado Novo. The rest was ‘legal camouflaje . . . Vargas knows it. So do the Brazilian people’.¹² Under article 187 the 1937 Constitution was to be submitted to a national plebiscite for ratification, but no plebiscite was ever held.

Under a decree-law of 2 December 1937 all political parties were abolished (and none were permitted until what proved to be the final six months of the regime in 1945). The Ação Integralista Brasileira (AIB) alone survived because it was allowed to become a ‘cultural centre’. But it was treated as an enemy and, despite earlier indications that it might, was given no place in the Vargas administration. In March 1938 a planned AIB insurrection was discovered before it could be carried out, and a series of repressive measures followed. The AIB’s newspaper *A Offensiva*, for example, was closed. On the night of 10–11 May a small group of Integralistas staged a desperate, badly organised putsch against the president himself and his family in his residence, the Palácio da Guanabara in Laranjeiras, which failed. The AIB was then banned and its members prosecuted, 1,500 ending up in prison of which 200 served sentences of between two and eight years. Plínio Salgado went into exile in Portugal until the end of the Estado Novo.

At the federal level Vargas governed through an inner circle of family and personal friends, members of his civil and military household, ministers of state and, most important, the high command of the Armed Forces. In marked contrast with the period 1930–1937, there were remarkably few cabinet changes in the period 1937–1945. In one period of more than three years, March 1938 to June 1941, there were none. Some ministers, notably Artur de Souza Costa, Minister of Finance, and Gustavo Capanema, Minister of Education and Public Health, who had both been in government since 1934, and Luiz Vergara, Secretary to the President, served throughout the eight years of the Estado Novo. Francisco Campos was Minister of Justice from November 1937 to July 1942, Oswaldo Aranha Foreign Minister from March 1938 to August 1944, Alexandre Marcondes Filho Minister of Labour from December 1941 to October 1945. On the military side Dutra served as Minister of War until August 1945 when he resigned in order to run for president; Góis Monteiro was Army Chief of Staff until late in 1944 when he was sent on an Inter-American military mission to Montevideo.

¹² Karl Lowenstein, *Brazil under Vargas* (New York, 1942), p. 48.

As we have seen, Góis and Dutra, the key figures behind the November 1937 golpe, had not wished to establish a military dictatorship. The Estado Novo was the personal dictatorship of a civilian politician, Getúlio Vargas – maintained in power by the military. But during the Estado Novo the military continued its rapid expansion and modernisation. The army grew from 75,000 men in 1937 to 95,000 in 1940 (almost double its size in 1930 and double the size of all the state military police forces put together) and 160,000 in 1944, by which time Brazil had entered the War and was preparing to send an expeditionary force (the *Força Expedicionária Brasileira*, FEB) to Europe. The military's share of the federal government budget, which had been just under 20 percent in 1930 and 25 percent in 1937, reached 36.5 percent in 1942 (including funding for the Navy and the newly created independent airforce).¹³ As an ally of the United States Brazil was now a major beneficiary of Lend–Lease, mainly directed at the reequipping of the armed forces. The internal unity and cohesion of the military (after a dozen generals had been purged following the attempted putsch by the *Integralistas* in May 1938) and its identity as a national institution were reinforced by the development of national traditions, symbols and ceremonies, most notably by the annual celebration on 27 November of the army's defeat of the communist *intentona* in 1935.

The military exercised political influence directly through the Conselho de Segurança Nacional (CSN), founded in 1934, in which the president, relevant ministers and the heads of the Army and Navy interpreted national security in the broadest terms, including, for example, many issues relating to economic development. The military also occupied key positions in many of the newly created government institutes and public companies: for example, the nationalist general Julio Caetano Horta Barbosa was appointed head of the newly formed National Petroleum Council in July 1938, a post he held until his resignation five years later. Vargas was not, however, merely the instrument of the military. The military was itself not monolithic; it lacked agreed positions in many areas of government and was divided on some key issues of economic policy. Moreover, Vargas and the military differed on some issues, particularly issues of foreign policy. Most famously, Góis and Dutra, both notoriously pro-German, offered the president their resignations when Vargas moved towards an alliance with the United States after Pearl Harbor. Neither was accepted.

¹³ José Murilo de Carvalho, *Forças armadas e política no Brasil*, op cit., pp. 87, 89.

Brazil's twenty states were governed, as they had been in the aftermath of the 1930 Revolution, by *interventores* directly appointed (and dismissed) by Vargas. The financial autonomy of the state governments had already been much reduced and the state military forces were now firmly under the control of the regional army commanders, not the state governors, and ultimately the Minister of War. A month after the November 1937 *golpe*, at a ceremony symbolising the end of autonomous state power, the state flags, including the famous *farroupilha* of Rio Grande do Sul, were burned on the Praia do Russel in the centre of Rio de Janeiro. From April 1939 state *interventores* were made responsible to 'Administrative Departments' (replacing elected state assemblies) which came directly under the control of the Ministry of Justice. These bodies approved budgets, issued decree laws, and so forth. They were small bodies of between four and ten members – all nominated by the President.

Vargas appointed as *interventores* relatives (e.g., his son-in-law Ernani do Amaral Peixoto in Rio de Janeiro state); senior military figures (e.g., *extenente* Oswaldo Cordeiro de Farias in Rio Grande do Sul, Vargas's home state which in the hands of Flores da Cunha had caused him so much trouble); close political allies (e.g., Agamenon Magalhães in Pernambuco in place of Lima Cavalcanti). The principal survivor from the period before 1937 was Benedito Valadares who remained in power in Minas Gerais. Vargas was, on the other hand, still cautious in his dealings with São Paulo. All three *interventores* between 1937 and 1945 were chosen from the *paulista* political elite, two of them, Ademar de Barros and Fernando Costa, from the former Partido Republicano Paulista (PRP).

An important feature of the administration of the Estado Novo was the proliferation of *conselhos técnicos*, commissions, autarchies, institutes and other federal and state agencies as the state came to play a bigger and more complex role in economic planning, coordination and regulation. The agencies created in the aftermath of the 1930 Revolution – for example, the Conselho Nacional do Café (later the Departamento Nacional do Café), the Instituto do Açúcar e do Alcool, the Conselho Nacional de Indústria e Comércio and, above all, the Conselho Federal de Comércio Exterior, were all strengthened. They were joined by a Conselho de Economia e Finanças and a variety of agencies responsible for the development of Brazil's infrastructure and basic industries including, besides oil (Conselho Nacional de Petróleo, 1938), energy (Conselho Nacional de Águas e Energia Elétrica, 1939), transport (Companhia Nacional de Ferrovias, 1941), iron ore (Companhia do Vale do Rio Doce, 1942, financed by loans from the

U.S. Export-Import Bank) and steel (the integrated steel mill at Volta Redonda, begun in July 1940 and also financed by Eximbank loans, under the control of the Companhia Siderurgia Nacional, CSN, 1941), industrial production (Fábrica Nacional de Motores, 1943), public works and regional development – as well as education, health and social welfare. During the War the Office for Coordination of Economic Mobilisation (1942) under the presidency of former *tenente* and São Paulo *interventor* João Alberto Lins de Barros was responsible not just for dealing with the problem of shortages and dislocations but almost all aspects of the Brazilian economy. These were Brazil's federal governing bodies during the Estado Novo and in the absence of elections, political parties and Congress a great deal of lobbying and other forms of political pressure were brought to bear on them.

Alongside the growth of public administration under Estado Novo came further attempts at administrative reform. The civil service in Brazil had always been an instrument of patronage in the hands of a political small elite. A decree-law of 30 July 1938 established the Departamento Administrativo de Serviço Público (DASP), a kind of super-ministry, an agent of modernisation, directly responsible to the president, which was given control over all personnel in the federal government and charged with creating a cadre of well-trained, efficient bureaucrats independent of political parties or private interests – though naturally identifying with the ideology and ethos of the Estado Novo. Here was the beginning of a career civil service, recruited and promoted on merit by public competitive examination, with provision for training, decent salaries and job security. DASP worked reasonably well (and survived until 1990), though many senior bureaucrats continued to be appointed, and dismissed, by the president and by ministers and, of course, more junior *funcionários públicos* and short-term, so-called supplementary personnel remained subject to state patronage, clientelism, nepotism and various other personal and political connections.

The organs of political and social control and repression also grew under the Estado Novo dictatorship. The military was the ultimate guarantor of public order. But the police, particularly the police force of the Federal District, which came under the supervision of the Minister of Justice and Internal Affairs but in practice, as it had been since January 1933, under direct presidential control, was also important. Since 1889 the President had named the capital's Chief of Police (as had the Emperor before). And since 1933 Felinto Müller had held the post. The state police forces, formally subordinate to the state governors, were now also under the

closer control of the central government. And each state in Brazil now had its political police, the Departamento de Ordem Política (DOPS), which monitored all liberal and Left political activity. The Communists remained the principal target of state repression, but under the permanent state of emergency Integralists, anarchists, supporters of other 'exotic' ideologies, 'subversivos' and undesirables in general, including after Brazil entered the War in 1942 Brazil's Nazis, were arbitrarily arrested, refused habeas corpus, brought before the Tribunal de Segurança Nacional, sentenced, imprisoned (and frequently tortured), or sent into exile.

The Vargas dictatorship was also intolerant and repressive towards the foreign national/ethnic communities in zones of earlier colonisation and immigration, especially in the South: Germans in Rio Grande do Sul, Santa Catarina and Paraná, Poles in Santa Catarina and Paraná, Russians, and Ukrainians in Santa Catarina, and Japanese in São Paulo and Paraná. (There were too many Brazilians of Italian descent in São Paulo and elsewhere for them to be treated as an ethnic minority.) A law in 1938 on the entry of foreigners including, as in many other countries, Jews fleeing persecution in Europe, reinforced existing restrictions on immigration – quotas by nationality – under the 1934 Constitution. There were also expulsions and extraditions. During the Estado Novo a campaign for the assimilation ('nationalisation') of immigrants and their descendants (it was not enough to be born Brazilian) was launched. It began and was concentrated in the schools. But the foreign language press (there were sixty newspapers in languages other than Portuguese in circulation, a third of them German) and radio were first forced to have Brazilian editors, then to become bilingual; they were finally prohibited. In August 1939 foreign languages and foreign customs were prohibited in public. The ban was later extended to churches, to leisure activities, to work, and eventually invaded domestic space, the daily lives of a significant proportion of the Brazilian population, especially in the South. Federal and state legislation was often enforced by the police and the army. After Brazil declared war on the Axis powers in 1942 Brazilians of German, Japanese and to a lesser extent Italian descent – and not only members of the Nazi party – were increasingly regarded as a danger to national security and treated accordingly.

The production and dissemination of government political propaganda, the control of public opinion and public indoctrination, was the responsibility of the infamous Departamento de Imprensa e Propaganda (DIP) formed in December 1939 and based on the earlier Departamento Oficial de Publicidade (1931) and Departamento de Propaganda e Difusão

Cultural (1934, renamed Departamento Nacional de Propaganda in 1938). It was much influenced by both commercial advertising in the United States and the Ministry of Popular Information and Propaganda under Joseph Goebbels in Nazi Germany. The DIP, like the federal police, came formally under the aegis of the Ministry of Justice, but its Director, Lourival Fontes, a great admirer of Mussolini, was directly answerable to the president. The DIP directed the official government press and the official government radio. Radio programmes like *A Hora do Brasil*, a one-hour review of national events broadcast by all radio stations, inaugurated in 1938 were a particularly effective instrument of propaganda: there were 350,000 radio sets in Brazil in 1937, and 650,000 in 1942.

The DIP distributed books and financed various journals of ideas, including the highly influential *Cultura Política* edited by the lawyer and journalist Almir de Andrade. Contributors included some of Brazil's most eminent intellectuals who had become ideologues of the Vargas regime and the *getulista* 'project': Francisco Campos, former Minister of Education, author of the 1937 Constitution and Minister of Justice (1937–1941); Azevedo do Amaral, journalist, editor, translator of *O século do corporativismo* (1935) by the Romanian intellectual Mihail Manoilescu, and author of *O estado autoritário e a realidade nacional* (1938); and José Francisco de Oliveira Viana, sociologist and historian, author of *Populações meridionais do Brasil* (1921), *Evolução do povo brasileira* (1923), several analyses of politics under the Empire and the First Republic, and *Raça e assimilação* (1932), who as legal adviser to the Ministry of Labour throughout the 1930s was a major influence on the social legislation of the period. These three regarded themselves as agents of Brazil's long-awaited national transformation. They rejected 'Anglo-Saxon' liberal representative political institutions as unsuitable for Brazil's economic, political and social (as well as ethnic and racial) realities. As demonstrated by the Old Republic, liberal institutions simply reinforced the power of Brazil's backward, fundamentally antinational state and regional oligarchies. For its national development Brazil needed a strong central state in the hands of a national bureaucratic elite and, at least for Campos, an authoritarian charismatic leader. Such a state could indeed be seen as the best guarantee of individual liberties and, in the context of the ideological conflicts of the 1930s, the best defence against communism. For Campos, '*o liberalismo político e econômico conduz ao comunismo*'.¹⁴

¹⁴ Other leading intellectuals – for example, Gilberto Freyre (*Casa grande e senzala*, 1933, and *Sobrados e mucambos*, 1936), Sérgio Buarque de Holanda (*Raízes do Brasil*, 1936) and Caio Prado Jr (*Evolução*

The DIP was also responsible for the control of the means of communication not in the hands of the state. Nongovernment press and radio, and the foreign press, were supplied with government material by an Agência Nacional. Radio, cinema, theatre, books, especially 'social and political literature', newspapers and magazines were directly censored by the DIP. There was no free press under the Estado Novo; the press was regarded as primarily an instrument of the state. Printers, publishers, bookshops were all subject to intervention. Those publishers, editors and journalists who tried to remain independent came under enormous financial pressure, and often lost their licences to print. '*Publicações inconvenientes*' were suppressed, discordant voices eliminated. In one particularly famous case, in 1937, the Director of the liberal newspaper *O Estado de São Paulo*, the journalist Júlio de Mesquita Filho, was imprisoned and later exiled. In 1940 the brother who replaced him, Francisco Mesquita, was also imprisoned, the newspaper expropriated and its administration put in the hands of people indicated by the government. Along with *A Manhã*, *A Noite* and *O Dia* the '*Estadão*' became, and remained until the end of the Estado Novo, an official organ of government propaganda.

Social and cultural policy under the Estado Novo is not our main concern here. But when they are or become part of a political project, and have significant political consequences, they deserve some attention. This is the case with education, at least secondary and to a lesser extent university education (basic education and the elimination of illiteracy was relatively low on the political agenda) and with culture. And it is particularly the case with social policies directed at urban labour.

Gustavo Capanema, a *mineiro* intellectual who had a special place in Getúlio's inner circle, was Minister of Education and Public Health from 1934 to 1945. He recognised the key role that education would play in the construction of a Brazilian nation and a Brazilian national identity. He sought to 'nationalise' the educational system and gave a great deal of attention to the school curriculum, especially Brazil's history, geography, literature and language ('*o cimento da brasilidade*'). Capanema was also in effect Brazil's minister of culture. He had close ties with some of Brazil's greatest writers and artists: the poet Carlos Drummond de Andrade was his

política do Brasil, 1933, and *Formação do Brasil contemporâneo. Colônia*, 1942) – were equally preoccupied with historical explanations for, and contemporary solutions to, Brazil's backwardness and the search for national identity, never became *estadonovistas*. Sérgio Buarque, however, did accept posts in the Instituto Nacional do Livro and Biblioteca Nacional and Freyre played an influential role in deepening cultural ties between the Vargas regime and the Salazar regime in Portugal.

chief of staff in the Ministry of Education; the writer Mário de Andrade, a consultant; the composer Heitor Villa-Lobos, Director of the Superintendência de Educação Musical e Artística. In developing for the first time a national policy of cultural management and patronage, he created or significantly expanded almost a dozen federal cultural institutions, notably the Museu Nacional de Belas Artes, the Museu Histórico Nacional (where the *Integralista* intellectual Gustavo Barroso, appointed in 1932, remained Director until 1959) and, most importantly, the Serviço do Patrimônio Histórico e Artístico Nacional (SPHAN) under the outstanding leadership of Rodrigo Melo Franco de Andrade, its Director from 1936 until 1967. Capanema presided over something of a state-sponsored national cultural renaissance, with the modernist Ministry of Education building in Rio de Janeiro by a team of Brazilian architects, including Lúcio Costa and Oscar Niemeyer, influenced by Le Corbusier, its most enduring symbol. Both Capanema's educational and cultural policies helped legitimate the modernising project of the Vargas regime.¹⁵

The Vargas era, and especially the Estado Novo, was also notable for the new concern shown by the state for the conditions of life and work of urban workers and the organisation of their labour unions (*sindicatos*). As Brazilian industry expanded in the aftermath of the 1929 Depression and especially during the Second World War, and as the Brazilian state expanded its size and functions, large sections of the urban working class, previously organised (where organised at all) in independent, often anarchist- or socialist-led *sindicatos*, were gradually drawn into a closer relationship with the state by means of 'corporatist' labour and social welfare legislation much of which remained in force at the beginning of the twenty-first century. The first steps to bring *sindicatos* under state control were taken in the immediate aftermath of the 1930 Revolution (under decree-law 19 March 1931), as we have seen. A more liberal decree-law (12 July 1934) in accordance with the Constitution of 1934 permitted some revival of independent unions – a return to *pluralidade sindical* – and, at least until the imposition of the first in the series of states of siege in November 1935, some renewed influence of the Left. However, under Articles 138–139 of

¹⁵ On education policy, see Chapter 8 in this volume. On cultural policy, see Daryle Williams, *Culture wars in Brazil. The first Vargas regime, 1930–1945* (Durham, NC, 2001). And on Capanema as both Minister of Education and Public Health and de facto Minister of Culture, see also Simon Schwartzman, Helena Maria Bousquet Bomeny and Vanda Maria Ribeiro Costa, *Tempos de Capanema* (Rio de Janeiro, 1984) and Angela de Castro Gomes (ed.), *Capanema: o ministro e seu ministério* (Rio de Janeiro, 2000).

the corporatist *Carta Constitucional* of the Estado Novo, inspired by the *Carta del Lavoro* of fascist Italy, and decree-law 1.402 (August 1939), state control of labour unions was restored and reinforced. Finally, in May 1943 all decrees and regulations on unions were consolidated in the Labour Code (*Consolidação das Leis do Trabalho*, CLT).

Under the Estado Novo workers may have had no political rights, and their civil rights were often ignored, but their social rights were extended and strengthened by new legislation which was part of the shift towards a corporatist structure of relations between state and society. Industrialists who had been largely against all labour and social legislation before and indeed after 1930 now accepted it: labour legislation which demobilised and controlled workers guaranteed social peace and stability; social welfare legislation contributed to higher productivity. The close 'corporatist' relationship between state and *sindicatos* was reinforced by an ideology of class collaboration, class harmony and social peace with government as the arbiter between capital and labour. Employers were also called upon to organise their own corporate class associations, which they did, but the great dream of a corporatist Grand Council of class representatives, both labour and capital, to replace Congress was never realised.

A central feature of the relationship between the state and organised labour in Brazil during the Estado Novo was the *sindicato único*, that is to say, one union per industry per locality. There were 800–900 recognised unions in Brazil. Within a vertical structure each broad sector (e.g., industrial workers, commercial workers) and each category (e.g., textile workers, bank workers) could organise statewide federations and national confederations. But no 'horizontal' interunion organisations across sectors (e.g., textile workers and metal workers in São Paulo) were permitted. Above all, the law did not allow for a single *national* organisation of all workers like the Argentine Confederación General del Trabajo (CGT) or the Confederación de Trabajadores de México (CTM). Moreover, international affiliation to the Confederación de Trabajadores de América Latina (CTAL), founded in 1938 by the Mexican Marxist leader Lombardo Toledano, was expressly forbidden.

A second feature of the relationship between state and labour was the degree of control over unions exercised by the Ministry of Labour through legal registration, recognition and the withdrawal of recognition, the regulation of the 'election' of officials who were in fact appointees (known as *pelegos*, cushioning the friction between the state and the working class, like the blanket – the *pelego* – between the rider and his horse), and not

least financial regulation. Unions were financed by means of the *imposto sindical* (introduced in July 1940). This was the compulsory contribution by all workers (whether union members or not) of union dues at the rate of one day's pay per annum deducted at source by employers and transferred to the federal government. The unions were guaranteed financial support irrespective of the number of their members. Finally, in the absence of free collective bargaining, negotiations between capital and labour were conducted through a system of labour courts. And, most important, Brazilian workers were denied the legal right to strike.

The ambiguities in the relationship between labour and the state under the Estado Novo have been the subject of much discussion. On the one hand, unions lacked autonomy and were subordinate to the state; workers were not permitted to engage in political activity, nor to strike, even though wages failed to keep up with inflation; a long tradition of working-class struggle to improve wages, hours and conditions of work was crushed. On the other hand, unions were legally recognised and union leaders had some (limited) political influence; there were regular wage increases, at least until 1943, and in 1940 a national minimum wage (promised in the Constitution of 1934) was finally introduced; workers had guaranteed stability of employment after ten years of service; equal pay for equal work for both sexes was the norm, at least in law; and limited social welfare benefits (pensions, medical care, etc.) were extended to increasing numbers of union members and their dependents. For example, the Instituto de Aposentadoria e Pensões (IAP), which had started with pension schemes for maritime, bank and commercial workers in 1933–1934, extended its coverage to industrial workers and civil servants in 1938. Brazilian workers under the Vargas dictatorship – at least those that were unionised – had rights not enjoyed by workers in many democratic countries, including Great Britain.

The Brazilian working class expanded during the 1930s and more particularly during the Second World War. It numbered some two million in 1945, approximately 15 percent of the thirteen–fourteen million *assalariados* in Brazil's population of forty million. It had also become more Brazilian, the product now of urban population growth and the beginnings of mass migration from countryside and small towns to cities rather than, as earlier, international (European and, after 1908, Japanese) immigration which was severely restricted during the 1930s. Half of Brazil's workers (around one million) were employed in only two cities: Rio de Janeiro (the Federal District) and São Paulo which had become to some extent 'proletarian cities'. By 1945 more than half of Brazil's urban workers (1.1 million) found

employment in approximately 70,000 small- and medium-sized *fábricas* (few employing more than 1,000 workers): textiles, food and drink but also metallurgy, chemicals and pharmaceuticals, cement, tyres, and vehicle assembly. And there was now a significant force of white-collar state employees. By 1945 a quarter of Brazil's urban labour force – half a million workers (approximately twice as many as before the War) – was unionised.

The Brazilian state in its dealing with labour had moved from repression – protests and strikes during the first decades of the twentieth century had been the responsibility of the police – to co-optation during the Estado Novo, and as opposition pressure for political change, for 'democratisation', increased towards the end of the Second World War it moved from co-optation to mobilisation. As Angela Gomes has shown,¹⁶ *trabalhismo* was invented by a regime that began to recognise the political potential, the future electoral weight, of organised labour, which it largely controlled, in a different, more open political system, which it might be forced to establish at the end of the War. From October 1942 in his ten-minute weekly broadcast to Brazilian workers on *A Hora do Brasil*, published in *A Manhã* the following morning, Alexandre Marcondes Filho, the Minister of Labour, emphasised '*a grande obra trabalhista do presidente Vargas*', Brazil's advanced social legislation, the new economic and social rights conceded to labour, the close connection between president and *povo*. Getúlio's birthday (19 April), Labour Day (1 May), the newly invented Dia da Raça (30 May), Independence Day (7 September), the anniversary of the Estado Novo (10 November) were all turned into mass meetings, usually in football stadiums like São Januário in Rio de Janeiro, the biggest stadium at the time, and later Pacaembú in São Paulo, where Getúlio Vargas addressed '*os trabalhadores do Brasil*'. There was nothing in his past or his personality to suggest that Vargas could be projected as a charismatic populist leader, but the ground had been prepared for a dramatic change of direction in 1945.

The Estado Novo was authoritarian, corporativist, antiliberal, antidemocratic. It was also anti-Communist. And it was nationalistic, intolerant of political, ethnic and cultural differences. The Estado Novo was clearly influenced by fascism in its various forms and many leading *estadonovistas* like Francisco Campos, Filinto Müller and Lourival Fontes, and in the military Góis Monteiro and Dutra, were openly admirers of fascist Italy

¹⁶ Angelo de Castro Gomes, *A invenção do trabalhismo* (Rio de Janeiro, 1988).

and even Nazi Germany. But the Estado Novo was not strictly speaking a fascist state, as has often been remarked, not least by its contemporary apologists like Azevedo do Amaral. No mass political party was organised to support the regime, no paramilitary organisation formed. The AIB that might have provided these was dismantled soon after the creation of the Estado Novo. Oliveira Viana once said: '*Nosso partido é o presidente*'. Getúlio Vargas was a dictator, though low-key and with a sense of humour, at least a sense of irony. Some hated him, but few feared him. He had virtually no personal security. He had the solid support not only of the military and the dominant class, rural and urban, especially now the industrialists, but also the broad support of the middle class, especially the state-employed middle class, and organised labour. There was extensive use of political propaganda, but little political mobilisation, at least not until the regime's final stages when Getúlio tried to capitalise politically on his close personal relationship with the mass of Brazil's urban population. The regime, though consistently authoritarian, had no official ideology beyond nationalism and conservative modernisation, and there was little in the way of indoctrination, no regimentation of society, culture, religion or universities, no interference in private lives (except in the case of known political enemies and members of foreign communities whose primary loyalties lay outside Brazil). It was not racist. On the contrary, under Vargas the Brazilian government for the first time took a positive view of Brazil's multiracial society and culture,¹⁷ and was only notably anti-semitic in its immigration policy. The state intervened in the economy, as we have seen, but did not totally regulate it. Finally, Brazil had no expansionist foreign policy. Its neighbours did not fear it. And, most importantly, it entered the Second World War on the side of the Allies against the Axis powers.

With the outbreak of war in Europe in September 1939 Getúlio Vargas had been forced to jettison what has been termed a policy of 'pragmatic equilibrium' between the Great Powers with major strategic and economic interests in Brazil (after 1930 primarily the United States and Germany). Brazil's options had narrowed; choices had to be made. In reality there never was a 'German option'. Despite sympathy for fascism in Italy and Germany (and in Portugal and Spain) among many sectors of Brazil's ruling elite, not least the military high command, and some initial hesitation by Vargas, who believed that liberal democracy was in terminal decline and

¹⁷ On the race question in Brazil in the 1930s, see Chapter 8 in this volume.

Great Britain was finished as a Great Power, there was never much doubt that Brazil would be driven by both political and economic considerations eventually to join the United States in support of Britain against Germany in the war.

As early as January 1941 Vargas secretly authorised the construction of U.S. air base facilities at Belém, Natal and Recife in the strategically important Brazilian Northeast for a future war against Germany in North Africa. Natal in particular was to be the U.S. 'springboard to victory'. In January 1942, following the Japanese attack on Pearl Harbor (7 December) and the decision of the United States to enter the War, and in accordance with agreements made at the Rio Conference of American Foreign Ministers, Brazil abandoned its neutrality and broke off diplomatic and commercial relations with the Axis powers – the first Latin American state to do so. In August, after persistent German sinking of Brazilian vessels (with the loss of Brazilian lives – several hundred in just three days that month), Brazil declared war on the Axis powers – again the first state in Latin America to do so.

During the Second World War Brazil was the closest ally of the United States in Latin America. Apart from providing the bases in the Northeast (of diminishing importance after victory in North Africa), under the Washington agreements of 1942 Brazil became a supplier of strategic materials to the United States – above all, rubber and iron ore, but also industrial diamonds, quartz and, not least, monazite sands (from which uranium and thorium, essential to the U.S. atomic energy project, could be extracted). Moreover, beginning in June–July 1944 Brazil sent 25,000 men under the command of General João Batista de Mascarenhas de Moraes (the first contingent of the Brazilian Expeditionary Force, the FEB, which had been formed the previous September) to the European theatre. These were the only Latin American combat troops to see action in the War, principally at Monte Castelo in Italy in February–March 1945. For its part the United States provided Brazil with military equipment – including tanks and aircraft – under Lend–Lease. Brazil was in fact the recipient of more than 70 percent of all Lend–Lease to Latin America. Senior Brazilian officers – the largest contingent of Allied officers – were trained at Fort Leavenworth and elsewhere. The United States remained the main market for coffee, Brazil's principal export, and other foodstuffs. And although unable to supply Brazil with all the manufactured and capital goods it required, not least because of restrictions on shipping, the United States offered loans (notably the Export–Import Bank loan for the Volta Redonda steel complex in the state of Rio de Janeiro) and technical advice and assistance (by

means, for example, of the Cooke mission in 1942), which considerably accelerated Brazil's economic, and especially industrial, development.¹⁸

During 1943 and 1944 opposition to the Estado Novo from a variety of clandestine and semiclandestine groups began to manifest itself. It had its roots in the 'illegitimacy' of a dictatorship established by military coup whose constitutional charter had never been put to a plebiscite, as had been promised in article 187. The famous *Manifesto dos Mineiros* (24 October 1943), the first collective protest against the Estado Novo, demanded a plebiscite on the Constitution and the continuation of Vargas's presidential mandate, as the sixth anniversary of the November 1937 *golpe* approached. It was merely the most public manifestation of a rising tide of opinion in favour of political liberalisation.

The opposition to the Estado Novo can be divided into two main elements. The first, and much the more important, consisted of those traditional, liberal-conservative regionally-based political families and parties, especially in São Paulo but also in Minas Gerais and even in Rio Grande do Sul, which had held power during the First Republic, which had been defeated in the 1930 Revolution, the 1932 Civil War and the elections of 1933 and 1934 and whose resurgence by means of elections in January 1938 had been halted by the coup of November 1937. Many of their leading members were in exile in New York, Paris and Buenos Aires. Their main political objective was not so much the establishment of democracy – their democratic credentials left a great deal to be desired – but a restoration of liberal constitutionalism. Some representatives of the export-orientated landed oligarchy of São Paulo also sought a return to liberal economic policies, opposed as they were to state intervention in the economy – except in defence of export agriculture, especially coffee – and the 'artificial' industrial growth which had been promoted by the Vargas regime during the Depression years of the 1930s and during the War. Secondly, the bulk of the liberal professional middle class – journalists, lawyers, and so forth – together with liberal intellectuals and, above all, students could be found in the anti-Vargas camp. The São Paulo Law School and especially its Frente de Resistência was particularly active and combative, despite government repression. This element was more genuinely democratic and formed the ideological backbone of the emerging *ampla frente democrática* which attracted the non-Communist Left but not for the most part, as we shall see, the Brazilian Communist party.

¹⁸ On the Brazilian economy during the War, see Chapter 5 in this volume.

There is no doubt that domestic liberal opposition to the Vargas dictatorship was stimulated by Brazil's entry into the Second World War on the side of the Allies. The Sociedade dos Amigos da América, founded in December 1942, and the Liga da Defesa Nacional, founded during the First World War and revived during the Second World War, used every Allied military success as an opportunity to express the hope that the Estado Novo would be brought to an end and constitutional, representative government restored in Brazil at the end of the War. 'If we fight against fascism at the side of the United Nations so that liberty and democracy may be restored to all people, certainly we are not asking too much in demanding for ourselves such rights and guarantees', declared the seventy-six signatories to the *Manifesto dos Mineiros* in October 1943, many of whom (Afonso Arinos and Virgílio de Melo Franco, Pedro Aleixo, Odilon Braga, Milton Campos) became leading figures in the União Democrática Nacional (UDN) after the Second World War.

The War, however, and in particular the role played by the Soviet Union, deepened already existing divisions in the Brazilian Communist party which might have been expected to provide the main opposition to the Vargas regime. The PCB, which had suffered persecution and repression at the hands of Vargas, was a clandestine party. Most of its national and regional leaders, including Luís Carlos Prestes, were in prison. Membership was small and consisted more of intellectuals and professional middle- and lower-middle-class elements than industrial workers. In 1943 two broad groups can be identified. In the first place, the Rio de Janeiro Communists together with some Northerners, for the most part Bahians, living in São Paulo favoured *união nacional democrática contra nazi-fascismo*. They put the need for national unity in support of the struggle of the Allies (which now included the Soviet Union) against the Axis – and ultimately for democracy – before immediate political change in Brazil. In this sense, then, they were pro-Vargas, at least for the duration of the War. The group's self-styled Comissão Nacional de Organização Provisória (CNOP) took the initiative in convoking the Second National Conference of the PCB. Fourteen delegates met at Barra do Pirai near the Mantiqueira Mountains in the state of Rio de Janeiro at the end of August 1943. A provisional party organisation was formally reestablished and Prestes was elected Secretary General (a post he was to hold for almost forty years) *in absentia*.

A second group (predominantly from São Paulo), however, rejected both this position and the right of the CNOP to institutionalise it. By putting the emphasis on *união democrática nacional* and the struggle for democracy

in Brazil they were essentially part of the anti-Vargas opposition. Towards the end of 1943 they formed their own organisation, the so-called *Comité de Ação*. But many left the *Comité* for the CNOP/PCB when first in March and then in June 1944 Prestes (from prison), while demanding amnesty, the legalisation of the party and the restoration of individual liberties, defended the Mantiqueira line that Communists should support Vargas unconditionally in the war against fascism. Prestes rejected both liquidationism (a reference to those who favoured the dissolution of the party in view of the dissolution of the Comintern itself in May 1943 – a variation of what was called Browderism in the United States) and the leftist sectarianism of those who attacked Vargas. Some Communists, however, especially *paulista* intellectuals, journalists and students, continued to play a role in the broad opposition front. The first Brazilian Writers' Congress held in São Paulo in January 1945 – a key event in the mobilisation of the opposition to Vargas in favour of democracy in Brazil at the end of the Second World War – was attended not only by prominent figures on the non-Communist left but by two of the nine founders of the PCB in 1922: Astrojildo Pereira and Cristiano Cordeiro.

DEMOCRATISATION, 1945

As the tide turned in favour of the Allies in the Second World War and victory over the Axis (and therefore of democracy over fascism) was assured it became increasingly unlikely that the *Estado Novo* – a dictatorship which had not entirely avoided the fascist label – would long survive the end of the Second World War. Barbosa Lima Sobrinho, journalist and politician, once offered the provocative proposition that the German defeat at Stalingrad (February 1943) sealed the fate of the *Estado Novo*. At the time both the U.S. ambassador to Brazil, Jefferson Caffery, and the British ambassador, Sir Noel Charles, believed that it would prove impossible for Vargas to resist the inevitable domestic pressure for liberal democracy at the end of the War.

Getúlio Vargas had never shown any enthusiasm for democracy, not at least *democracia liberal* which he associated with the semi-representative but essentially oligarchical politics of the Old Republic. Ideologues and propagandists of the *Estado Novo* referred to *democracia nova*, *democracia social*, *democracia autêntica*, or even *democracia autoritária* (*sic*) – all of which placed much more emphasis on economic and social than on political citizenship. Individual freedoms, political parties, elections for both

executive office and legislative assemblies may all have been undermined and in most cases abolished in 1937, but the power of the central state, economic and especially industrial development, national identity and pride, citizenship in a social if not in a political sense (at least for urban workers) had all been advanced under the Estado Novo (or Estado Nacional as Vargas had begun to call it).

For Vargas, the Second World War was a reason (or excuse) for *delaying* discussion of Brazil's political future. Stability, continuity and national unity became overriding considerations. Opposition demands for political change were largely ignored. In April 1944 Vargas told the Brazilian Press Association (ABI) that elections would have to wait until the end of the War (which gave the opposition *Diário Carioca* the opportunity to run the headline 'President Vargas promises elections after War'). In July he appointed as the new police chief in Rio de Janeiro Cariolano de Góis, described by the British ambassador as 'thoroughly brutal and repressive'. The Sociedade dos Amigos da América was proscribed in August (prompting the resignation of Oswaldo Aranha, former ambassador to Washington, Foreign Minister since 1938 and one of Vargas's closest political allies since the revolution of 1930, who had recently been elected the Society's vice-president). There were renewed waves of arrests during the following months. Opposition hopes of engendering political change before the end of the War were finally dashed.

Nevertheless Vargas had to recognise that the world had changed. If Brazil wished to play a role in a postwar international political order dominated by the United States – and Brazil aspired to a permanent seat on the Security Council of the United Nations, the structure of which was under discussion at Dumbarton Oaks during the second half of 1944 – and if Brazil wished to secure much needed U.S. development aid and U.S. direct investment, especially in manufacturing industry, after the War, at the very least some 'adjustment' of Brazil's political structure would have to be made. In September in his Independence Day speech Vargas for the first time explicitly promised free elections *after* the War. Equally important, the military, the main pillar of the Estado Novo, had arrived at the same conclusion. Late in October 1944 General Eurico Dutra, Minister of War since 1936 and no democrat, returned from an inspection tour of the Brazilian forces in Europe convinced that the bulk of the officers, under the influence as they now were of the United States, and looking to U.S. military assistance after the War, supported the establishment of 'democratic representative institutions' in Brazil. In November General

Góis Monteiro, former War Minister and army chief of staff for most of the Estado Novo, on leave from Montevideo where he was serving with the Inter-American Defense Committee, joined Dutra in arguing for an end to the dictatorship sooner rather than later. Vargas finally instructed Alexandre Marcondes Filho, who had become both Minister of Justice and Minister of Labour, to draw up, in consultation with Brazil's senior generals, a programme of political liberalisation, including elections, the speedy implementation of which he promised in a speech to the military on 31 December 1944.

The United States brought no *direct* pressure to bear on its ally Brazil in favour of political liberalisation, not at least until the closing stages of the War. In Brazil, as elsewhere in Latin America, the United States was pleased to accept the support of, and indirectly to support, a dictatorship provided it was committed internationally to the struggle against the Axis powers. 'From the American standpoint (when they are honest with themselves) Vargas [was] admittedly a tyrant', an official at the British Foreign Office observed, 'but (like another great Allied leader) he is a tyrant on the right side and therefore ceases to count as such'.¹⁹ The Good Neighbor policy towards Latin America, the cornerstone of which was nonintervention, even for the promotion of democracy, was in any case by now well established. President Franklin D. Roosevelt was, moreover, on particularly good personal terms with Vargas. And Vargas was, of course, no Trujillo or Somoza. However, towards the end of 1944, for example, in Assistant Secretary of State Adolf Berle's November circular to U.S. embassies, the United States became more open in its declarations that it felt greater affinity with, and was more favourably disposed towards, democracies rather than dictatorships in Latin America. In February 1945 Secretary of State Edward R. Stettinius Jr visited Brazil on his way back from Yalta en route to the Inter-American Conference on the Problems of War and Peace (the Chapultepec conference) in Mexico City. At Yalta it had been agreed that there would be 'free elections of governments responsive to the will of the people' in liberated countries (and at Chapultepec there would be declarations in favour of democracy in Latin America, too). There is no evidence, however, that Stettinius specifically raised the issue of elections in Brazil during his brief stay in Rio de Janeiro.

¹⁹ Quoted in Leslie Bethell, 'Brazil', in Leslie Bethell and Ian Roxborough (eds.), *Latin America between the Second World War and the Cold War, 1944–1948* (Cambridge, 1992), p. 35. This section draws heavily on my chapter in this volume edited by myself and Ian Roxborough.

Whatever the pressures, internal and external, direct or indirect, for political change, Vargas and the military were confident that they could control any process of *abertura* and indeed that they could win any elections that might be held. Thus democratisation need not necessarily mean a return to the status quo ante 1930 or ante 1937, the restoration of a largely discredited *democracia liberal*. There had after all been no breakdown of political power. Vargas controlled the state apparatus (the military, the police, the state *interventores*, the municipal *prefeitos*, the bureaucracy and the judiciary.) He could count on considerable political support from the non-export-orientated sectors of the rural oligarchy (in Rio Grande do Sul, in Minas Gerais, in the Northeast), from the industrialists who backed and benefitted from his development policies and the 'social peace' he guaranteed, from the urban middle and lower middle class, especially in the public sector which had expanded enormously during the Estado Novo. Finally, and most importantly if there were to be elections, Vargas believed, with justifiable confidence, that he and the regime had the support of organised labour. The post-war conjuncture offered an opportunity to transform the Estado Novo into some form of *democracia social*.²⁰ It could be 'democratisation' with the minimum of rupture.

It is not clear whether Vargas, who had been president continuously since 1930 but never directly elected, intended or hoped to offer himself for election at the end of the Second World War. Certainly he was impressed by Roosevelt's reelection (for the fourth time) in November 1944. The intensification of state propaganda, especially by means of *A Hora do Brasil* radio programme from August 1944, aimed at reminding Brazilian workers of their economic and social gains under the Estado Novo has been seen as in effect the beginnings of an electoral campaign. The monthly meeting of union leaders in Rio de Janeiro on 21 February chaired by Dr. José Segadas Viana of the National Department of Labour was reported as having 'degenerated into a Vargas campaign rally'. Posters had appeared throughout Brazil between January and March proclaiming, '*Ontem Getúlio Vargas estava com os trabalhadores. Hoje os trabalhadores estão com Getúlio*' [Yesterday Getúlio Vargas was with the workers. Today the workers are with Getúlio]. There was much speculation about Vargas's

²⁰ At a PTB *comício* in Porto Alegre at the end of 1946 Vargas declared: 'The old liberal and capitalist democracy... (is) in frank decline because it is fundamentally based in inequality... it is with socialist democracy, democracy of the workers, that I associate myself' Quoted in Fausto, op. cit., p. 161.

intentions by foreign observers at the time. The British embassy in Rio and the Foreign Office in London, for example, always assumed Vargas would stand. Roosevelt himself went so far as to express the hope that Vargas would stand – and be elected.

On 28 February 1945 Vargas decreed that elections would be held later in the year on a date to be announced within 90 days. The Departamento de Imprensa e Propaganda (DIP) abolished press censorship. It had in any case collapsed with the publication in the *Correio da Manhã* on 22 February of Carlos Lacerda's famous interview with former presidential candidate José Américo de Almeida in which he ruled out not only himself and Armando Sales but also Getúlio from any future presidential election ('the most comprehensive attack on the Vargas regime for many years', the British embassy reported), as well as interviews with Virgílio de Melo Franco and Prado Kelly in *O Globo*. The DIP was then itself wound up. Under the new Rio de Janeiro police chief, *ex-tenente* João Alberto Lins de Barros, repression of opposition political activity by journalists, professors and students also ceased. New political parties began to be formed. On April 18 an amnesty was proclaimed: all political prisoners (including Luís Carlos Prestes) were released and political exiles began to return.

Under the Electoral Law of 28 May (the *Lei Agamenon*, named after its author the Minister of Justice, Agamenon Magalhães) presidential and congressional (Chamber of Deputies and Senate) elections were scheduled for 2 December, with elections for state governors and state assemblies to follow in May 1946. As under the Electoral Code of 1932 and the Constitution of 1934 the ballot would be secret and supervised by independent tribunals; all literate men and women over the age of eighteen would have the right to vote; the vote would be obligatory for all – with failure to vote punishable by fines; voter registration was by individual initiative but again it would be automatic for complete lists of employees (including many who were in fact illiterate) in both the public and the private sectors (i.e., *ex-officio alistamento*). All this, if effective, would expand significantly the political participation of the urban lower middle class and working class while maintaining the severe restrictions on the participation of the (mostly illiterate) rural population, still a large majority. Finally, the law established new criteria for the organisation of parties: the signatures of at least 10,000 electors in at least five states were required before a party could be registered with the Tribunal Superior Eleitoral. This was to ensure that elections would be contested for the first time since the foundation of the Republic in 1889 by truly *national* parties.

The three parties that would dominate Brazilian politics during the next twenty years (until their abolition by Brazil's military government in 1965) were formally constituted between February and May 1945: the Partido Social Democrático (PSD), the party created by Vargas to continue the work of the Estado Novo, the *situacionistas*, the *homens do poder*, especially the state *interventores*; the União Democrática Nacional (UDN) by a broad coalition (Right, Centre and non-Communist Left) of Vargas's opponents; and the Partido Trabalhista Brasileiro (PTB) by Ministry of Labour officials and union bosses. At its national convention in July the PSD, led by interventors Benedito Valadares (MG) and Fernando Costa (SP), made Vargas its president but chose Dutra, the War Minister, as its presidential candidate. There was, among other factors behind this move, an important tactical consideration: if Vargas became a candidate and resigned the presidency (as he would eventually be obliged to do) the regime might lose control of the transition from dictatorship to 'democracy'. At its national convention in August the UDN confirmed as its candidate Eduardo Gomes, *ex-tenente* and air force brigadier who had been in effect leader of the opposition to Vargas since the middle of 1944. The PTB, at this early stage much the weakest of the three new parties, also made Vargas its president but did not nominate a presidential candidate.

Thus in May 1945 the electoral contest in Brazil was essentially between the PSD and the UDN, a party for and a party against the Estado Novo and what it represented, but both essentially parties of the dominant class (with broad urban, middle-class support). Their candidates for the presidency were both drawn from the high ranks of the military, neither of whom had much popular appeal or support. *Democratização pelo alto* had come down to a choice between *democracia do general* (Dutra) and *democracia do brigadeiro* (Gomes). It was at this point, however, that the Brazilian people, or to be more precise the urban lower middle and working classes, entered the political scene. The six months from May to October 1945 witnessed an unprecedented level of political mobilisation in Brazil's major cities orchestrated in part by the PCB but more particularly, as we shall see, by the so-called *Queremistas* (from the slogan '*Queremos Getúlio*', We want Getúlio). Brazilian politics were dominated not by the two presidential candidates, but by two politicians with more popular electoral appeal – Luís Carlos Prestes and, above all, Getúlio Vargas.

During the first half of 1945, partly as a consequence of the political *abertura* initiated by Vargas but more as a reaction to wartime hardships and deprivations, there were for the first time in more than a decade significant

manifestations of popular discontent in cities throughout Brazil. Popular protest was directed not so much against the dictatorship (much less the dictator) as against low wages, long hours, bad working conditions, poor housing, inadequate transportation and, above all, the rising cost of living. Early in 1945 the American Chamber of Commerce in Rio de Janeiro calculated that prices, in general, had more than doubled during the War from a base price index of 100 (June 1939 = 100, December 1944 = 250) and the price of food had trebled (June 1939 = 100, December 1944 = 317). At the same time wages had increased by only 50 percent overall since 1941 and there had been no general wage adjustment since November 1943.

In late March and in May in particular, the Brazilian labour movement emerged from a decade of relative passivity to display a militancy unequalled since the end of the First World War. Several hundred strikes occurred – in the transport sector (especially railways), in public utilities (e.g., gas and electricity), in the banking sector, in the docks and in industry (e.g., the Matarazzo cotton textile mills and the Goodyear tyre plants). Rio de Janeiro, São Paulo, Santos, Campinas, Juiz de Fora, Belo Horizonte and Porto Alegre were all affected. In São Paulo 300–400 strikes involving 150,000 workers were estimated to have taken place in less than one week in May. The climate there was described as that of a general strike.

Emerging from a decade of repression and isolation and, though strictly speaking still illegal, permitted to organise openly from mid April, the Communists were quick to seize the opportunities offered, even though they had no previous experience of mass organisation. They soon had *sedes* in every city in every state. They claimed a membership of more than 50,000. They extended their influence over neighbourhood *Comitês Democráticos Populares* or *Progresistas* which sprang up all over Brazil. Above all, they penetrated the official corporate union structure, although how far simply to take control of it, how far to reform it and how far to replace it with an independent parallel structure remains a matter of some dispute. The Communists were always ambivalent about ‘spontaneous’ working-class action, and especially strikes, committed as they still were to class collaboration and national unity and concerned to ensure an orderly transition to democracy which would guarantee the legal status and survival of the party.

On 30 April 300 Communist labour leaders from thirteen states came together to form a central inter-union front, the *Movimento Unificador dos Trabalhadores* (MUT), with a reformist programme: union autonomy (and in particular less control of union finances and elections by the Ministry of Labour); free collective bargaining (i.e., a reduction in the

powers of the labour courts); the right to strike; improvement of the social security system; the extension of labour and social security legislation to the countryside; the creation of 'horizontal' union organisations; and the right to affiliate to international labour organisations. While never officially recognised by the Ministry of Labour, the MUT was allowed to function. And it grew rapidly in Rio de Janeiro, São Paulo and Minas Gerais in May and June. It was even given permission to send two delegates (claiming to represent 150,000 workers) to the second meeting in Paris in October of the World Federation of Trade Unions (WFTU) to which the *Confederação de Trabalhadores de América Latina* (CTAL) was affiliated. From June, however, the wider political struggle in Brazil tended to overshadow the struggle for control of the unions. Workers were invited by the MUT to abjure "irresponsible" strikes and demonstrations and to tighten their belts (*apertar o cinto*) in the interests of ensuring a peaceful transition to democracy and a legal future for the PCB.

Luís Carlos Prestes, the Secretary General of the PCB, was in the words of U.S. Ambassador Adolf Berle 'a ready-made hero': former leader of the Prestes Column, for almost a decade the most prominent political prisoner in Latin America, and the subject of a best selling biography *O Cavaleiro da Esperança* by the *bahiano* novelist (and PCB member) Jorge Amado. He drew much larger crowds than either of the two presidential candidates at two *comícios* (political meetings) which took the form of popular celebrations: 50,000–70,000 on 23 May at the Estádio de São Januário (the home of Vasco da Gama football club) in Rio de Janeiro where a sea of red flags was as much evidence of the postwar prestige of the Soviet Union with which Brazil had recently established diplomatic relations as support for the Communist Party; over 100,000 on 15 July at the Pacaembú stadium in São Paulo. The second meeting was attended by the Chilean poet (and leading member of the Chilean Communist party) Pablo Neruda, who read a poem he had written in honour of Prestes. Neruda has provided a vivid description of the occasion:

I was stunned when I saw the crowd packed into Pacaembú stadium, in São Paulo. I'm told there were more than 130,000 people... Small of stature, Prestes, who was at my side, seemed to me a Lazarus who had just walked out of the grave, neat and dressed up for the occasion. He was lean and so white that his skin looked transparent, with that strange whiteness prisoners have. His intense look, the huge violet circles under his eyes, his extremely delicate features, his grave dignity, were all a reminder of the long sacrifice his life had been. Yet he spoke as calmly as a general after a victory.²¹

²¹ Pablo Neruda, *Memoirs* (London, 1977), pp. 313–4.

The UDN had made overtures to Prestes on his release from prison hoping to persuade him to join the anti-Vargas democratic front now that the War was virtually over. At his first press conference on 26 April Prestes, however, had made it clear that he had confidence in neither Gomes (a 'reactionary') nor Dutra (a 'fascist'). In contrast to Argentina where the Communist party joined the Unión Democrática against Perón, the PCB refused to join the UDN. Most individual Communists now left the UDN. As did some elements on the non-Communist Left. For example, Paulo Emílio Sales Gomes of the Frente de Resistência left in July to form the independent União Democrática Socialista (UDS). In August, however, the UDS merged with the Esquerda Democrática (ED) which became the left wing of the UDN until it broke away to form the Brazilian Socialist Party (PSB) in 1947. Prestes looked to a broad coalition of class forces – the proletariat, the petit bourgeoisie and progressive sections of the bourgeoisie – for support in the construction of what he called *democracia genuína*. Eventually it became the Communist position that this could best be achieved not through the presidential and congressional elections planned for December but the election of an Assembléia Geral do Povo or Constituent Assembly which would elaborate a democratic Constitution for Brazil. The implication, of course, was that Vargas meanwhile would continue in the presidency.

For his part Vargas had soon lost what little confidence he ever had in Dutra's capacity to win an election in which for the first time in Brazilian politics the working-class vote would be decisive. He publicly endorsed Dutra only once: at a political meeting in the Vasco de Gama stadium on 1 May attended by only 4,000 people. At the same time Vargas was concerned at the rapid advance of the PCB, and more especially of the MUT within the labour movement. He regarded the PTB (which he viewed as a Brazilian version of the British Labour Party whose stunning election victory over Churchill in July would make an enormous impression on him) as the only effective *anteparo* (barrier) to Communism and he urged Brazilian workers to join it. Union affiliation to a political party remained illegal, but the PTB soon claimed 250,000 individual members. Of the three new political parties only the PTB had failed to nominate a candidate for the presidency. Vargas encouraged public debate of the idea of a third candidate, an alternative to Dutra and Gomes, a 'civilian candidate of the people'. João Batista Luzardo, who had reason to know, assured Dutra's biographer thirty years later that, as in 1937, '*Vargas só tinha uma tertius: ele mesmo*' [Vargas had only one candidate in mind: himself].

As early as 1 May there had been indications that a new political movement might be formed around the slogan '*Queremos Getúlio*'. Comitês-pro-Getúlio sprang up in a number of cities throughout Brazil during May, June and July. The *Queremistas* formally established *sedes* in Rio de Janeiro on 31 July and São Paulo on 2 August. Soon they were in every state. Behind the movement were the propaganda and mobilisation machine of the Estado Novo, government ministers like Marcondes Filho (Labour) and Agamenon Magalhães (Justice), leading officials of the Ministry of Labour, the National Department of Labour and the social welfare institutions, government-approved union leaders (the *pelegos*), national and state leaders of the PTB, some 'progressive' or maverick businessmen, notably the industrialist, banker and commodity speculator Hugo Borghi – the 'fascist gang', as the British embassy liked to call them. The key questions to which there are no satisfactory answers for lack of evidence concern Vargas's own involvement in the movement and its objectives. It is scarcely credible, as is sometimes claimed, that he knew nothing of it. Did he actually promote or merely tolerate it? Certainly he did nothing to stop it. *Queremista comícios* were not banned. Was Vargas's nomination as presidential candidate – and subsequent electoral victory – the aim? Or were they (was he) preparing the ground for a populist coup? Both were impossible without the approval of the military. There was some indication that the *Queremistas* might go along with the Communist idea of a Constituent Assembly. That way Vargas would at least remain in power beyond December 1945. And a Constituent Assembly might elect him president for another term as had happened in 1934.

After smouldering for months *queremismo* burst into flames in mid-August. *Comícios* were held in São Paulo on August 15, Recife on August 17, Rio de Janeiro and Belo Horizonte on August 20. Banners appeared carrying the slogan '*Getúlio diz não ser candidato, mas o povo o quer*' ('Getúlio says he is not a candidate, but the people want him'). During the last week of August the Rio daily *O Globo* listed thousands of telegrams (each with thousands of signatures) from factories, unions and neighbourhood associations in favour of the presidential candidacy of Getúlio Vargas. Mass demonstrations on a scale never seen before in Brazil were organised in Rio de Janeiro during the last ten days of August. 30 August was to be Vargas's '*dia do fico*' ('*fico*' meaning 'I stay' – a reference to a famous declaration by the Portuguese Prince Regent Dom Pedro in 1822 that he would remain in Brazil and lead the movement for Brazilian independence). In the event Vargas told a huge crowd that had marched on the Catete Palace that

he was not a candidate for the presidency and that he intended to leave office after the elections on 2 December. Candidates had to resign public office at least three months before the election. 2 September passed without Vargas's resignation. The immediate crisis was over, but although Vargas continued to insist that he was not a candidate (again, for example, on national independence day, 7 September) there remained a good deal of ambiguity in his attitude towards the *Queremistas* who now adopted the slogan '*Constituinte com Vargas*' and planned a further mobilisation of popular forces for 3 October, the fifteenth anniversary of the Revolution of 1930 which had first brought Vargas to power.

The PCB, at first disturbed by the rise of *Queremismo* and fundamentally antagonistic towards it, decided on a policy of *aproximação* or *frente comum* with what it regarded as '*a força menos reacionária*'. For this further 'betrayal' of the working class, following the MUT's curbing of labour militancy earlier in the year, the PCB has been bitterly criticised by non- and anti-Communists down the years. Prestes's decision was based on the following 'realities': the relative weakness of the PCB, only recently semilegalised; the relative weakness of the labour movement dominated for so long by the 'fascist' state; the strength (and profound anti-Communism) of the forces of reaction (represented by both the UDN and the PSD); and the evident popularity of Vargas – and his economic and social project – with broad sectors of the working class. The Communists redoubled their efforts in September to secure a *Constituinte*, a '*Constituinte com Getúlio*'.

Political mobilisation by the Communists and *Queremistas* in August and September – for a Constituent Assembly, for Getúlio as presidential candidate, for a '*Constituinte com Getúlio*' – produced an inevitable conservative backlash. Elite and middle-class supporters of the UDN, frightened by the prospects of a *república populista*, a *república sindicalista*, even a *república comunista* moved significantly to the Right. Despite the attachment of the Esquerda Democrática in August the UDN looked less than ever like, in the words of Virgílio de Melo Franco, '*um partido de centro inclinado para a esquerda*'. It had never really believed that the regime would permit free elections in December and had long demanded the transfer of power from Vargas to the judiciary *before* the elections. Now it was openly encouraging military intervention. (A military coup to guarantee democracy is always a risky undertaking, and the consequences of a such a coup are uncertain.) At the same time within the PSD representatives of the rural oligarchy, the bureaucracy and especially the industrialists,

previously some of Vargas's strongest supporters, began to exhibit their concern at the turn of events. In Rio Grande do Sul Borges de Medeiros, Ral Pilla and Flores da Cunha joined together in a united front in support of Gomes, the candidate of the UDN. Important sections of the press demanded Vargas's resignation or a military coup to overthrow him. Finally, the Catholic Church hierarchy – among whom the archbishops of Rio de Janeiro and São Paulo in particular were openly and fiercely anti-Communist – added its voice to the growing demand from the Right that elections should take place in December as originally scheduled. There was thus widespread '*desconfiança em Vargas*'. The slogan '*Lembraí-vos de 37*' (Remember 1937) made its appearance (a reference to the cancellation by Vargas in November 1937 of the presidential elections due to take place in January 1938).

There were, however, two major differences between 1945 and 1937, besides the fact that in 1937 Vargas had justified his *manobras continuístas* on the need to avert a Communist-led mass insurrection (the 'evidence' for which was entirely fabricated by the regime) and in 1945 he appeared to be deliberately mobilising popular support and, yet more dangerous, accepting the support of the Communists. In the first place, the military high command (and the leaders of the Brazilian Expeditionary Force, the FEB, symbolic of Brazil's commitment to democracy, which had returned triumphantly to Brazil – to huge popular acclaim – in July and August) saw themselves as not only the defender of national security (especially against the threat of Communism) but also the guarantors of democracy in Brazil. Vargas had already lost some of his old *tenente* allies – Juraci Magalhães, Juarez Távora, Eduardo Gomes – to the UDN. Now Góis Monteiro, with Dutra the architect of the 1937 coup, who had replaced Dutra when he resigned as Minister of War in August in order to contest the presidential election, reiterated time and again throughout September the military's commitment to the December elections. Secondly, the United States was now committed to democratic transitions in Latin America and in the end risked open intervention in Brazilian domestic politics for the first time in an attempt to guarantee the December elections.

Aldolf A. Berle Jr, a progressive New Dealer who had served as Assistant Secretary of State from 1938 to 1944, had been persuaded by Roosevelt in January 1945 to go to Rio de Janeiro as U.S. ambassador until at least the end of the War. For six months he had quietly encouraged the dismantling of the Estado Novo. Unlike his colleague Spruille Braden on arrival in Buenos Aires in May, Berle did not feel that it was necessary to adopt a more active

role in favour of democratisation. Presidential and congressional elections had been promised and a date set. The two candidates for the presidency were rather too 'politically conservative and economically reactionary' for Berle's taste, but they were both satisfyingly pro-United States. (It was Berle's view that if Vargas, 'far and away the most popular individual in the country', had offered himself for election he could have been expected to win – but he had not done so.) Berle did not doubt Vargas's intention to preside over free elections and then relinquish power. Even with the rise of the *Queremistas* in August and pressure early in September from the UDN to adopt a tougher stance (as Braden had adopted vis-à-vis Perón in Argentina) Berle chose to maintain his faith in Vargas. The Brazilian dictator, he insisted, and both President Truman and the State Department agreed, was not to be compared with Perón, not least because he had always been 'our friend'. Truman also agreed with Berle that U.S. interference at this stage was not only unnecessary but could prove disastrous.

In the middle of September, however, Berle came to believe that there was a real danger that Vargas might be tempted to postpone or cancel the elections and retain power on a wave of popular mobilisation. This could lead to one of two equally unpalatable developments: Vargas would establish a populist-nationalist dictatorship, possibly with Communist support (which raised for the first time in some minds in the State Department the danger of Soviet penetration of Brazil); or there would be a pre-emptive military coup, ironically by U.S.-trained troops using U.S. equipment, and the establishment of a military dictatorship. Either development could lead to an approximation with Perón's Argentina and a strengthening of the Perónist bloc against the United States. Without firm instructions but with the encouragement (albeit lukewarm) of the State Department to make contingency plans for action short of direct intervention to discourage any move to postpone the elections, and stiffened by Ambassador Braden, who having (or so he thought) brought democracy to Argentina passed through Rio de Janeiro on 23 September on his way to Washington to take up the post of Assistant Secretary of State, Berle decided upon a public expression of opinion in favour of democracy in Brazil. In a speech to the government-controlled journalists' union at the Hotel Quitandinha in Petrópolis on 29 September, in the presence of several UDN leaders, Berle declared that any disruption of the existing election timetable and therefore any continuation of the dictatorship beyond 2 December would be regarded by the United States as 'tragic'. Berle's speech, undoubtedly important, perhaps decisive, was soon being referred to by the opposition to Vargas as 'the

atomic bomb that ended *Queremismo*'. This was an exaggeration and as things turned out a little premature.

At a *comício* on October 3, the fifteenth anniversary of the 'October Revolution', Vargas repeated that he was ready to fulfil the agreed schedule for presidential and congressional elections, and again declared that he was not a presidential candidate. However, he emphasised his respect for the will of people, his support for a 'genuinely democratic process' (in which the election of a *Constituinte* might perhaps be the best way forward), and the need to defeat 'dark and powerful reactionary forces' (*forças reacionárias poderosas e ocultas*) threatening to undermine the transition to democracy, ending enigmatically, 'The people can count on me'. And in an important speech on 14 October Vargas again urged Brazilian workers to affiliate with the PTB (which had still not nominated a presidential candidate) and declared his continued interest in the idea of a Constituent Assembly. By this time the Communists were having second thoughts and promoting the idea of a '*Constituinte sem Getúlio*'.

Meanwhile, as mobilisation of the working class in Buenos Aires on 17 October successfully restored Perón to power after his arrest by the military, the *Queremistas* and the Communists were for the third time mobilising their support for mass meetings to be held on October 26 and 27. The Brazilian military, to some extent prompted by the UDN, had by now, however, lost all confidence in Vargas. It was generally believed that the December elections would be called off and that a decree for the election of a Constituent Assembly was being drafted. When Berle, who was also now thoroughly alarmed, returned to Rio from vacation in the south of Brazil on 22 October plans for a *contragolpe* against the expected *golpe* were already well advanced. Meetings of senior officers of all three services, in which Góis Monteiro again played a leading role, took place almost daily in late October.

In the event the authorities cancelled the *comícios* set for 26 and 27 October. But on October 29 after he had, in an extraordinary move, appointed his notoriously corrupt brother Benjamin, '*o Bejo*' ('the worst thug in Brazil' in the view of the British embassy), chief of police and former police chief João Alberto *prefeito* (mayor) of the Federal District – either for the purpose of popular mobilisation or for his own protection – Vargas was presented with an ultimatum by the military high command of whom Góis Monteiro was once again the dominant figure (and delivered personally to the Palácio Guanabara by General Cordeiro de Farias): resign or be forcibly removed. Vargas therefore relinquished the presidency – after

fifteen years in office. It was the third intervention by the military in Brazilian politics in fifteen years. In 1930 it put Vargas in power; in 1937 it maintained him power; in 1945 it removed him from power. There was no resistance from Vargas himself, from pro-Vargas factions in the military, from the *Queremistas*, from the Communists, or from the people. Hardly a shot was fired. Berle commented: 'As a revolution, if it is that, this was the quietest thing I have yet seen'.

Epilogue: The Elections of December 1945

The *golpe* of 29 October 1945 which ended the Estado Novo did not lead to a military dictatorship as many, including the U.S. ambassador Adolph Berle, had feared. There were a number of arrests (Luís Carlos Prestes – again, union leaders affiliated to the MUT, Benjamin Vargas, some PTB/Queremista leaders such as former Ministers Magalhães and Marcondes Filho). The post-coup repression was, however, limited and short-lived; most detainees were soon released, not least thanks to Berle's intervention. In accordance with the UDN slogan 'All power to the judiciary', the interim presidency went to José Linhares, the president of the Federal Supreme Court. His cabinet was drawn mostly from the UDN. Many state *interventores* and many *prefeitos* were replaced, somewhat weakening PSD control of the forthcoming presidential and congressional elections which were confirmed for 2 December. And the PCB, which had behaved prudently so as not to provide the military with an excuse for its proscription and which had given its full support to the interim government, was formally registered and permitted to contest both the presidential and the Congressional elections – although it would clearly not under any circumstances be allowed to win. The PCB chose as its presidential candidate not Luís Carlos Prestes (that would have been too provocative) but Yedo Fiúza, a non-Communist engineer, former mayor of Petrópolis and Director of the National Department of Highways.

Seven and a half million Brazilians, men and women aged 18 and over, 25–30 percent of the adult population, registered to vote in the elections. (They were required by law to be literate, but not all were in fact literate because 21 percent of them – 54 percent in the Distrito Federal, 31 percent in São Paulo – were registered en bloc by means of the ex-officio registration through the workplace. About 6.2 million went to the polls, more than three times as many as in 1930, the last direct presidential election held

in Brazil, and 1934, the most recent Congressional elections. Adolf Berle expressed himself 'delighted with the democratic spectacle'.

However, against all forecasts and expectations, domestic and foreign, the election for president was won not by Brigadier Gomes (UDN), representing the broad coalition of right, centre and non-Communist Left opponents of the Estado Novo and supporters of a limited form of democracy, but by General Dutra (PSD), former Minister of War and a man totally identified with the Estado Novo dictatorship. Dutra polled 3.25 million votes, an overwhelming victory with 55 percent of the valid votes (*votos válidos*), that is, votes for all candidates but excluding *votos em branco* (blank ballots) and *votos nulos* (spoiled ballots). He had the support of the PSD political machines (and the resources they commanded) in the states and state capitals (what Pedro Aleixo, the president of the mineiro UDN, called '*a máquina da ditadura*'). But another decisive factor was the eleventh hour (27 November) appeal by Vargas to the Brazilian workers on behalf of the PTB to vote for Dutra against Gomes ('*O general Dutra merece vossos votos*', 'The general deserves your vote'). Gomes came second with 35 percent (2 million votes), Fiúza third with a little under 10 percent (570,000 votes – a third of them in São Paulo). The elections for Congress – which was to meet initially as a Constituent Assembly – were won by the PSD, the party most representing the Estado Novo, with 43 percent of the vote (151 deputies, 26 senators). The UDN polled only 26 percent (eighty-three deputies, twelve senators). The PTB, which only ran in fourteen states, came third with 10 percent of the vote (twenty-two deputies, two senators), and the PCB fourth with 9 percent (fourteen deputies and one senator, Luís Carlos Prestes). Under the electoral rules at the time, candidates were permitted to run for more than one post. The two most voted politicians were Luís Carlos Prestes and Getúlio Vargas. Prestes was not only elected senator for the Federal District but federal deputy for the Federal District, Pernambuco and Rio Grande do Sul and *suplente* (alternate deputy) in three other states. Vargas was elected PSD senator for Rio Grande do Sul, PTB senator in São Paulo and PTB federal deputy for the Federal District and six states. (He chose to serve as senator for his home state.) João Neves da Fontoura, prominent *gaúcho* politician and future Foreign Minister, who regarded the victory of Dutra and the PSD in the December 1945 elections as a '*verdadeira bomba atômica*' (the most popular metaphor of 1945), had no doubt that the chief credit belonged to Vargas.

The 'democratisation' of Brazil at the end of the Second World War was real. But the transition from dictatorship to 'democracy' had been controlled in the end by the forces that had sustained the Estado Novo. A great measure of continuity was guaranteed. Vargas was removed from power, but one of the key figures in the Vargas dictatorship, General Eurico Dutra, was elected president for a five-year term. And his party, the PSD, had an absolute majority in both houses of Congress which would meet in 1946 to produce a new Constitution. The 1946 Constitution would severely restrict popular participation in Brazil's new 'democratic' political system. The Left was soon again excluded from Brazilian politics (the legality of the PCB lasting less than two years). And with Dutra president, the military retained much of the political power it had exercised during the Estado Novo. Brazil's limited form of democracy survived for almost twenty years – not least because the military, which in many other Latin American countries was instrumental in its overthrow in the immediate post-war years, supported it. But it was brought to an end by a military coup in 1964.

2

POLITICS IN BRAZIL UNDER THE LIBERAL REPUBLIC, 1945–1964

Leslie Bethell

INTRODUCTION

The democratisation of Brazil in 1945–1946 was part of a Latin America-wide, indeed worldwide, wave of democratisation at the end of the Second World War.¹ In 1942, despite considerable sympathy for the Axis powers at the highest level, both political and military, Brazil had allied itself with the United States and Great Britain in the war against Germany, Italy and Japan, on the side therefore of democracy against fascism. In the final months of the War, Getúlio Vargas, who had been in power since the Revolution of October 1930, and the military leaders who had in November 1937 supported him in establishing the Estado Novo dictatorship (which was often mislabelled ‘fascist’) came under increasing international (as well as domestic) pressure at least to liberalise, if not democratise, Brazil’s political system. On 28 February 1945 Vargas announced that elections would be held by the end of the year. And a new Electoral Code (28 May) set a date – 2 December 1945 – for presidential and Congressional elections (with elections for state governor and state legislative assembly to follow in May 1946).

The transition from Estado Novo to a limited form of democracy was initiated *do alto* (from above). But as popular forces were mobilised, and radicalised, by the so-called *Queremistas*, who favoured the continuation of Vargas in power, and the Communists, who preferred direct popular elections for a Constituent Assembly (sometimes working together – to the consternation of conservatives, both pro- and anti-Vargas, both civilian and military), as uncertainty mounted over whether Vargas really intended the

¹ See Leslie Bethell and Ian Roxborough (eds.), *Latin America between the Second World War and the Cold War, 1944–1948* (Cambridge, 1992).

presidential and Congressional elections scheduled for December to take place, and after the U.S. ambassador Adolf A. Berle Jr. had made a 'soft intervention' in favour of 'democracy' in late September, the military on 29 October finally deposed Vargas. José Linhares, the president of the Federal Supreme Court, assumed the presidency ad interim and immediately guaranteed that the elections would indeed take place.²

The elections held on 2 December 1945 for President, a Chamber of Deputies of 286 members and a Senate of 42 members (two for each of Brazil's twenty states plus the Federal District – the city of Rio de Janeiro) were the first reasonably fair and free, competitive, and popular elections ever held in Brazil. The ballot was secret, and both the vote and the count were supervised by independent, professional electoral tribunals. For the first time since the Empire elections were contested by *national*, or at least nationally organised, political parties. And the Brazilian Communist party, illegal for almost its entire history since its foundation in 1922, was allowed to take part. Most important, for the first time in the history of the Republic there was a significant degree of popular participation, although it fell far short of universal suffrage since the vote remained restricted to men and women aged eighteen years or more who were literate, that is to say, around 35 percent only of the adult population. 7.5 million Brazilians were registered to vote, 25–30 percent of the adult population, almost two-thirds of them concentrated in four of the twenty states (all in the Southeast and South of the country): São Paulo (1.7 million), Minas Gerais (1.2 million), the state of Rio de Janeiro plus the Federal District (1 million) and Rio Grande do Sul (900,000). And because the vote was, for the first time, obligatory for both men and women, the turnout was high (83 percent).

The presidential election was won by General Eurico Gaspar Dutra, Vargas's Minister of War (1936–1945) and the candidate of the Partido Social Democrático (PSD), the party created by Vargas in 1945 to represent the forces that had sustained the Estado Novo, based on the state and municipal political machines under the control of state *interventores* and the *prefeitos* (mayors) of the state capitals – and the resources at their disposal. He also received the decisive (albeit last-minute) backing of the former dictator himself and the other party he had created in 1945 to continue the work of the Estado Novo, the Partido Trabalhista Brasileiro (PTB), based on the government controlled labour unions. Dutra secured

² For a more detailed analysis on the events of 1945, see Chapter 1 in this volume.

3.25 million votes (55 percent), winning in all five regions of the country – the Southeast, the South and the North outright, and the Northeast and the Centre-West by a large plurality – and in seventeen of Brazil's twenty states. He defeated Air Force Brigadier Eduardo Gomes, the candidate of the União Democrática Nacional (UDN), a broad coalition of Right, Centre and non-Communist Left opponents of the Estado Novo, which had also been created in 1945. Gomes, who had been widely expected to win, polled only 35 percent of the vote (2.04 million votes). Yedo Fiúza, the candidate of the Partido Comunista do Brasil (PCB), came third with slightly less than 10 percent (570,000 votes – a third of them in São Paulo).

The Congressional elections were also won by the PSD which secured 43 percent of the vote, electing 151 federal deputies (53 percent of the total) and 26 senators (60 percent). The UDN came second with 26 percent of the vote, electing eighty-three deputies and twelve senators. The PTB, which did not yet have a fully national organisation (it ran in only fourteen states), and which had campaigned for only two months, came third with 10 percent of the vote, electing twenty-two deputies and two senators, the PCB fourth with 9 percent of the vote, electing fourteen federal deputies (four of them in São Paulo, three in the Federal District, three in Pernambuco) and one senator (the historic leader of the party Luís Carlos Prestes in the Federal District). Several other parties contested the Congressional elections but none won more than a handful of seats in the Chamber of Deputies (see Table 2.1, p. 97.).

The two houses of Congress elected in December 1945 met in February 1946 in the first instance as a Constituent Assembly. The PSD, the party of the Estado Novo, had an absolute majority: 177 delegates (151 deputies and 26 senators). The Assembly was therefore dominated by what José Almino has called *democratas autoritários*. Moreover, the UDN, which formed the second largest *bancada* (95 delegates), was less than fully committed to liberal democracy, despite its name, as the following twenty years were to demonstrate. Together these two parties constituted more than 80 percent of the Assembly. The Constitution they delivered on 18 September 1946 was broadly liberal-democratic, with guarantees for free elections, free press, freedom of association, the rule of law, basic civil liberties and social rights. However, existing restrictions on political participation were maintained (there was to be no extension of the right to vote to the illiterate half of the adult population), the ground was prepared for the eventual illegalisation of the PCB, Brazil's only significant party of the Left, and the continuation of corporatist state control of organised labour was guaranteed. And in the

background the military remained ready and willing to intervene politically. The transition from dictatorship to democracy had been controlled in the end, despite some alarms, by the politicians and political forces linked to Estado Novo. As a result, Brazil's first genuine experience of representative democracy would be limited in scope and, it could be argued, essentially antipopular in nature.

BRAZIL'S POSTWAR DEMOCRACY

Under the Constitution of September 1946 Brazil remained, as under the two previous republican Constitutions (1891 and 1934), a federal republic. President and vice-president were elected – separately elected – for five-year terms in direct national popular elections. Victory went to the candidate with the largest share of the valid votes (*votos válidos*), that is, votes for candidates, excluding blank ballots (*votos em branco*) and spoiled ballots (*votos nulos*). President Dutra had already been elected in December 1945; federal deputy Nereu Ramos (PSD-Santa Catarina), a former *interventor* during the Estado Novo and one of the founders of the PSD, was elected vice-president by Congress the day after the promulgation of the new Constitution. The next president and vice-president would be elected in October 1950 – to take office in January 1951. There was no right of re-election. The governors of Brazil's twenty states were also to be elected by direct majority popular vote. The elections due to be held in May 1946 were postponed until January 1947 when governors would be elected for four years (to January 1951). In October 1950 their successors (since again there was no right to re-election) would be elected for either four- or five-year terms according to their state constitutions. Until 1960 when Rio de Janeiro became the state of Guanabara and Brasília the new capital the governor of the Federal District was appointed by the president. No provision for the direct election of mayors of state capitals was made under the 1946 Constitution. Until the law on municipal elections of November 1952 they were elected or nominated by state governors according to each state constitution. For example, São Paulo had eight nominated mayors in eight years before it became the first state capital after 'democratisation' in 1945 to elect its mayor, Jânio Quadros in March 1953, by direct popular vote.

The Brazilian Congress would consist of two houses: a Senate and a Chamber of Deputies. Senators, like state governors, were elected (two per state in December 1945, with a third added in January 1947) by direct

state-wide majority vote – for an eight-year term. Federal deputies were elected for four years, though in fact those elected in December 1945 served for five. The next elections for both Senate and Chamber of Deputies would be October 1950 – at the same time as the presidential, gubernatorial and state assembly elections. (It would be the last ‘general election’ in Brazil until 1994). Elections for the Chamber of Deputies were conducted under a system of proportional representation in which each state of the federation constituted a single voting district. Candidates had to be affiliated to a political party (no later than fifteen days before the election), though voters voted for the most part for the candidate rather than the party. The total number of *votos válidos*, that is, in the case of legislative elections votes for candidates plus *votos brancos* (blank ballots), but excluding *votos nulos* (spoiled ballots), was divided by the number of seats to be filled to provide an electoral quotient for each state. The total vote for all the candidates of each party was divided by the electoral quotient to give the number of seats won by each party. Candidates were then elected in accordance with their place on the list of votes for each party. Thus, Brazil operated an open list (*lista aberta*) system, not a closed list in which the parties themselves decided which of their candidates would take their allocated seats in Congress. In December 1945 seats not allocated by means of the electoral quotient went to the party with largest number of votes (which explains why the PSD secured a much larger proportion of the seats in Congress than its share of the popular vote), but after the electoral rules were revised in July 1950 they were distributed by a much fairer highest average rule.

The Electoral Law of May 1945 – based on the 1932 Electoral Code and the 1934 Constitution – was incorporated in the 1946 Constitution and gave both men (except enlisted men in armed forces) and women aged eighteen years and above the right to vote – provided they could demonstrate that they were literate. Since the national adult literacy rate was less than 50 percent in 1945 and still only 60 percent in 1960 (with particularly high rates of illiteracy, of course, in the Northeast and North and in the rural areas generally), 40–50 percent of adult Brazilians were thus denied the right to vote. And since voter registration was an individual responsibility not all those with the right to vote registered to vote. (The 1945 experiment with *exofficio alistamento*, group voter registration of employees in government employment or in the larger public and private companies, which had actually enabled some illiterates to vote, was abolished by the revision of the electoral law in July 1950.)

The electorate, however, and therefore the level of popular political participation, grew steadily in the postwar period – from 7.5 million in 1945, less than a third of the adult population, to 18.5 million, more than a half, in 1962. This was the result of four factors: first, the growth of Brazil's population from 40 million in 1940 to 70 million in 1960; secondly, urbanisation: 35 percent of the population was officially classified as urban in 1940 (although only 16 percent were living in cities with populations of more than 20,000), 45 percent in 1960 – with the heaviest concentration in São Paulo and Rio de Janeiro followed by Belo Horizonte (Minas Gerais), Recife (Pernambuco) Salvador (Bahia), Belém (Pará) and Porto Alegre (Rio Grande do Sul); thirdly, as we have seen, some modest improvement in literacy rates; and, finally, higher levels of voter registration.³ And since voting was obligatory (except for those over the age of seventy), the turn out in elections was high: for example, in Congressional elections 82.3 percent in 1945, 79.6 percent in 1962.

Elections in the postwar period were reasonably free and fair, although some intimidation, the purchase of votes and the exchange of votes for favours, especially jobs, and outright fraud, all endemic under the Old Republic, persisted, especially in the rural areas. The vote was secret and the vote, the count and the certification of the results were all supervised by the independent professional judges of the Tribunal Superior Eleitoral (TSE) in the Federal District and the somewhat less independent judges (because they were appointed by state governors) of the regional electoral courts in each state capital. Until 1955 voting papers (*cédulas*) were printed and distributed to voters by individual candidates and parties. The *cédula única oficial* printed and distributed by the *justiça eleitoral* was first used in the 1955 presidential elections and then gradually extended to all elections. It did a great deal to reduce both the pressure on voters by local political bosses and outright fraud, but there was a great deal of confusion caused by the fact that the voters (many of them only semi-literate) now had to write in the name or number of the candidate, party or coalition of parties (and there were a large number of these to further confuse the voter). The percentage of ballot papers spoiled (*nulos*), which was quite insignificant in 1945, was 9 percent in the Congressional elections of 1958 and 18 percent in 1962 elections.

³ The electorate actually declined between the Congressional elections of 1954 and 1958, from 15.1 million to 13.8 million, while the population grew by 11 percent, as a result of a new voting register in 1956, the first for over a decade, aimed at reducing the number of the deceased on the electoral lists, double registrations, changes of residence and so forth.

Elections were contested by a large number of political parties, though few of them had a clearly defined identity based on history, ideology, programme or social base. Between 1945 and 1948 twelve parties were legally registered. There was only one new registration after 1948: the *Movimento Trabalhista Renovador* (MTR) in 1958. The electoral system presented no barrier to the formation of political parties except that they should be *national*. The rules, however, were extremely tolerant. Under the Electoral Code of May 1945 the signatures of 10,000 voters in five states were required for a party to contest the December 1945 elections. (In May 1946 the minimum requirement was raised, but only to 50,000 signatures.) However, apart from the Partido Comunista do Brasil (PCB) (which was declared illegal in May 1947), the only truly national political parties were the Partido Social Democrático (PSD), the União Democrática Nacional (UDN) and the Partido Trabalhista Brasileiro (PTB) which, as we have seen, were all hastily improvised during the first half of 1945 to contest the December elections. And even the PSD and the UDN, the two largest, were essentially confederations of state-based organisations. Indeed the national directorate of the PSD consisted of the presidents of the state parties. This was inevitable in a country the size of a continent (some of Brazil's twenty states were the size of the larger European countries), which was still predominantly rural and small town, in which there had been only state-based parties under the First or Old Republic (1889–1930), and in which during the Estado Novo (1937–1945) the embryonic national parties which had contested the Constituent Assembly and Congressional elections of 1933–1934 and the (eventually aborted) presidential election of 1938 had been abolished.

The Partido Social Democrático (PSD) was based on the *interven-tores* (state governor-administrators) and *prefeitos* (mayors of *municípios*) appointed by Vargas during the Estado Novo and the state and municipal political machines they built to maintain Vargas in power. The PSD now existed to continue the *estadonovista* 'project' – state-led national economic development and the maintenance of social peace through labour and social legislation – in the postwar period. It was supported by big landowners and political bosses (*coroneis*) in all twenty states, who delivered the rural vote in particular, especially in Minas Gerais, Rio Grande do Sul, the state Rio de Janeiro and the less developed states in the Northeast with a strong clientelistic political culture. The PSD was less strong, though certainly not weak, in São Paulo and in the big cities, though in these it had the support of civil servants, industrialists in various ways dependent on state support

and workers in the public sector. It was nonideological, pragmatic, conservative, but committed to the 'modernisation' of the Brazilian economy and Brazilian society, urban society at least. In the late 1950s a group of younger, more reform-minded, urban-based deputies formed the so-called *ala moça* of the PSD in Congress, challenging many of the positions adopted by the *raposas* (foxes), the older, more pragmatic, rural-based caciques of the party, and willing to vote with the more progressive deputies in the PTB and even the UDN.

The PSD (in alliance with the PTB) won two of the four presidential elections of the postwar period (in 1945 with Dutra and in 1955 with Juscelino Kubitschek), and played a crucial role in a third (in 1950). It won every Congressional election (Chamber of Deputies and Senate) between 1945 and 1962, although its share of the vote suffered a sharp decline between 1945 and 1950 from 56 percent to 3 percent and, after remaining fairly stable throughout the 1950s, fell sharply again between 1958 and 1962 from 35 percent to 29 percent when it only narrowly won a plurality in the Chamber of Deputies.

The União Democrática Nacional (UDN) was the party of those sections of the traditional landed oligarchy and associated *coronéis* that had lost power in the revolution of 1930 and those allies of Getúlio Vargas in 1930 who had broken with him before, during and after the *golpe* and establishment of the Estado Novo in 1937. In this sense, its social base was in part the same as that of the PSD, but less strong because its supporters had been out of power for so long. At the same time, despite its reputation for believing Brazil's *vocação* was essentially *agrícola*, it was also the party of the 'liberal' educated urban upper and middle class, including business in the private sector. It had been briefly, in 1945–1946, the party of the non-Communist Left, until the latter formed the independent Esquerda Democrática which then became the Partido Socialista Brasileiro (PSB) in August 1947. Thereafter, the UDN became more obviously a party of the Centre-Right. It was strongly anti-Communist in the early stages of the Cold War. Above all, the UDN was what Virgílio de Melo Franco called 'the party of eternal vigilance' against the return to power through the electoral process of Getúlio Vargas and *getulismo* and all that he and it represented to *udenistas* (authoritarianism, populism, nationalism, the increasing size and power of the state, state intervention in the economy). The party included hardliners (*duros*), the so-called *banda de música*, but also a *chapa branca* element willing to cooperate in government with the PSD, since both parties were fundamentally conservative especially on rural

issues and both were anti-Communist. And from the late 1950s a reform-minded *bossa nova* element emerged in Congress willing to vote on some issues with the *ala moça* of the PSD and even the PTB.

The UDN's electoral support remained steady throughout the period at 22–26 percent. It came second to the PSD in all Congressional elections except 1962 when it was overtaken by the PTB. But, except perhaps through the right-wing populism of Carlos Lacerda in the city of Rio de Janeiro (from 1960 the state of Guanabara), it never captured the popular vote. It never won the presidency except indirectly by supporting Jânio Quadros (who did not belong to the party) in 1960. For a party with such a firm rhetorical commitment to democracy it developed strong links with the military and a powerful *vocação golpista*. With every election defeat Carlos Lacerda and other UDN leaders, many of whom had been opponents of the Estado Novo and signatories to the liberal *Manifesto dos Mineiros* in 1943, attempted, or at least considered, a *golpe* against the victors whom they suspected of planning a *golpe* against democracy! It was the UDN that provided the civilian support for the military coup in 1964 which ended Brazil's postwar democracy.

The Partido Trabalhista Brasileiro (PTB) was based on the the government-controlled labour unions and social security institutes created by Vargas after 1930 and especially during the Estado Novo which survived the transition to 'democracy' at the end of the War. There was no *liberdade sindical* under the Liberal Republic. The PTB was not a grassroots workers' party like the British Labour Party at the time or thirty years later the Partido dos Trabalhadores (PT). It was, it has often been said, more a party for the workers, especially workers in state enterprises, than of the workers. At the outset (and until his suicide in 1954) it existed primarily to provide Vargas with a power base among organised labour in addition to that provided by the PSD through the state political machines. Vargas regained the presidency in the elections of 1950 as the candidate of the PTB (with the support of the Partido Social Progressista, PSP, in São Paulo) and its candidate João Goulart was elected vice-president twice as (with the support of the PSD), in 1955 and 1960.

The PTB was particularly strong in Rio Grande do Sul, the home state of Vargas, Goulart and the leader of its left-nationalist wing in the late 1950s and early 1960s, Leonel Brizola, and in the Federal District (Rio de Janeiro). It was never strong in São Paulo, the industrial heartland of Brazil, where first Ademar de Barros and later Jânio Quadros captured the bulk of the popular vote. Moreover, the state party organisation split when one of

its leading figures, the industrialist Hugo Borghi, left to form the Partido Trabalhista Nacional (PTN) in 1946.

The PTB gained from the illegalisation of the PCB in 1947, and provided one of the means by which Communists were still able to contest elections, but it was itself not strictly speaking a party of the Left, not at least until the party's National Conventions in October 1957 and May 1959 when its discourse became more ideological and, led by Leonel Brizola, it became the principal supporter of a programme of basic reforms, including votes for illiterates, the extension of labour legislation to the rural workers and agrarian reform. Until then it had, like the PSD, supported the *getulista* project, though with a greater emphasis on social issues. The PTB was the only one of the three major parties to increase its electoral support throughout the period. In the Congressional elections of 1962 it came second, overtaking the UDN, and came close to overtaking the PSD as the strongest party in the Chamber of Deputies.

The smaller parties worthy of note were all clearly identified with a particular state or region (and individual politicians). For example, the Partido Social Progressista (PSP) was formed in July 1946 from three small, *paulista*-led parties – the Partido Republicano Progressista, the Partido Popular Sindicalista and the Partido Agrário Nacional – as a political vehicle for Ademar de Barros, the former *interventor* of São Paulo, and was primarily based in São Paulo and, to lesser extent, the state of Rio de Janeiro and the Federal District. It was because of its strong base in São Paulo, which accounted for more than 20 percent of the Brazilian electorate (as well as 35–40 percent of Brazil's GDP) and where interestingly (and significantly) all three major parties, PSD, UDN and PTB, were relatively weak, that the PSP became and remained Brazil's fourth most important party in the post-war period. The Partido Democrata Cristão (PDC), which had its roots in the political movements of the 1930s associated with the Catholic Church, was also based in São Paulo and, to a lesser extent, Paraná; the Partido Republicano (PR), founded in 1945 by former president Artur Bernardes, in Minas Gerais and, to a much lesser extent, Bahia and Rio de Janeiro; the Partido Libertador (PL) led by Raul Pilla, the only party to favour a parliamentary political system, in Rio Grande do Sul, Paraná and Santa Catarina; the Partido de Representação Popular (PRP), led by Plínio Salgado and the heir to the fascist Ação Integralista Brasileira (1932–1938), in Rio Grande do Sul, Paraná, São Paulo and Rio de Janeiro.

Despite the existence of a dozen or so parties, and a clear tendency for the smaller parties to grow, especially between the elections of 1958 and

Table 2.1. *Election Results for the Chamber of Deputies, 1945–1962*

	1945	1947	1950	1954	1958	1962
Parties	(286)	(19)	(304)	(326)	(326)	(409)
PSD	151	7	112	114	115	118
UDN	83	4	81	74	70	91
PTB	22	2	51	56	66	116
PCB	14	0	—	—	—	—
PR	7	3	11	19	17	4
PSP	4	1	24	32	25	21
PDC	2	0	2	2	7	20
Others	5	2	25	31	33	39

Source: Rogério Schmitt, *Partidos políticos no Brasil (1945–2000)* (Rio de Janeiro, 2000), p. 23, table 1.

1962 (the PDC, for example, competed in only five states in 1945 but had a representation in Congress was equal to that of the PSP by 1962), Brazil had essentially a three-party system under the Liberal Republic (a four-party system if the PSP is included). All the presidential and vice-presidential elections were won by candidates belonging to or supported by one of the three major parties. Between them the PSD, UDN and PTB secured 90 percent of the seats in the Chamber of Deputies and 95 percent of the Senate seats in December 1945, 75–80 percent of the seats in the Chamber between 1950 and 1962, 80–95 percent of the Senate seats between 1954 and 1962. The only time they failed to secure more than three quarters of all seats in both houses of Congress was in 1950 when 14 percent of the seats in the Senate went to the PSP. See Tables 2.1 and 2.2.

Although the PTB (and the smaller parties, especially the parties on the Centre-Left) grew significantly between the Congressional elections of

Table 2.2. *Election Results for the Senate, 1945–1962*

	1945	1947	1950	1954	1958	1962
Parties	(42)	(24)	(22)	(42)	(21)	(45)
PSD	26	13	6	16	6	16
UDN	12	6	4	9	8	8
PTB	2	1	5	12	6	12
PSP	1	1	3	1	0	1
PCB	1	—	—	—	—	—
Others	0	(3?)	4	4	1	8

Source: Schmitt, op. cit., p. 24, table 2.

1945 and 1962, the distribution of seats in Congress consistently favoured the more 'conservative' PSD and UDN and, equally important, the more conservative elements within each of them. Like the Constitution of 1891 the Constitution of 1946 (incorporating the May 1945 Electoral Code) distributed seats in Congress between the twenty states in such a way as to leave the smaller (in population, not always in size), predominantly rural, economically, socially and politically more backward and therefore more clientelistic states, that is to say, the majority, especially in the Northeast and the North, overwhelmingly overrepresented at the expense of the more heavily populated, urban and economically developed states of the South and Southeast, especially São Paulo and Minas Gerais, and even some of the more populated and developed states of the Northeast like Bahia and Pernambuco. As in the United States each state, large or small, developed or underdeveloped, was equally represented in the Senate (in Brazil's case each with three senators). But unlike the U.S. House of Representatives seats in the Chamber of Deputies were not distributed in proportion to population. Each state was allotted one deputy per 150,000 inhabitants up to twenty, then one per 250,000 inhabitants. Moreover, each state was given a minimum of five deputies. This benefited those states with populations under one million – the majority, especially in the North, Northeast and Centre-West – and prejudiced states with populations of more than three million. To take an extreme case, it has been calculated that in 1945 fourteen times more votes, and in 1962 twenty-six times more votes, were required to elect a federal deputy in São Paulo than in Acre. Under a system of perfect proportional representation, Brazil would have had fifty more seats in the Chamber of Deputies in 1962, of which half would have gone to São Paulo and Minas Gerais. São Paulo (population 12.8 million) would have increased its number of seats from fifty-nine to eighty-six, Minas Gerais (population 9.7 million) from forty-eight to sixty-five. At the same time, Bahia (population 5.9 million) would have increased its seats from thirty-one to thirty-nine, Rio Grande do Sul (population 5.4 million) from twenty-nine to thirty-six; and even Paraná and Pernambuco (4.3 and 4.1 million in population, respectively) would each have gained three seats.⁴

Built into Brazil's post-war political system were enormous possibilities for conflict and impasse between a reform-minded 'populist' president and a conservative Congress. Presidents (and vice-presidents) were elected

⁴ Olavo Brasil de Lima, 'Electoral participation in Brazil (1945–1978): the legislation, the party systems and electoral turnouts', *Luso-Brazilian Review* XX/1 (1983), pp. 68–9.

nationally by direct majority vote. Elections were therefore won and lost in the most heavily populated, most developed, most urbanised states. Sixty percent of the vote was concentrated in the four southern states of São Paulo, Paraná, Santa Catarina and Rio Grande do Sul together with Minas Gerais, the state of Rio de Janeiro and the Federal District (from 1960 the state of Guanabara). Voters in these states were less vulnerable to clientelism and coercion by traditional political elites, but more susceptible to personalism and populism.

Successful candidates for the presidency and vice-presidency, like the governorships of the more developed states, were broadly speaking 'developmentalist', 'reformist', 'progressive': Vargas in 1950, Kubitschek and Goulart in 1955, Quadros and Goulart in 1960. But to govern they had to deal with a Congress with a permanent PSD–UDN conservative majority against reform. Whatever the personal political skills of each president (and Vargas and especially Kubitschek clearly had more than Quadros and Goulart) there was a real problem of governability. Only two of the four postwar elected presidents served full, relatively crisis-free, five-year terms and handed over power to their elected successors. Dutra had the support in Congress of both the PSD and the UDN. Kubitschek managed to revive the original *getulista* PSD/PTB coalition and at the same time secure some UDN support. Vargas, however, had to govern with the PTB, the PSP and a minority of PSD deputies; the bulk of the PSD was opposed, the UDN hostile. He served only three-and-a-half years before his suicide in August 1954. Quadros had to rely almost entirely on the UDN, and even the UDN became quickly disillusioned with him. He served only seven months before his *renúncia* in August 1961.

Finally, and most important, the military retained in the postwar period the independent political power it had exercised during the Estado Novo, indeed since the Revolution of 1930. It was an integral part of the political system. It could and did intervene in politics, always with the justification that it had the right to defend the Constitution (and the *pátria*) and to guarantee law and order. Without the support of the military it was impossible for any democratically elected president to survive in power. The military was a heterogeneous institution, politically and ideologically, and claimed to be professional and essentially nonpolitical. In the 1950s, however, there was a polarisation at the extremes between Left and Right, pro- and anti-*getulismo*, nationalist and antinationalist, pro-Communist (a minority still sympathetic to Luís Carlos Prestes) and Cold War anti-Communist (the majority). The military was approached by civilian politicians, in and out of

power, to remove elected presidents or to prevent them assuming power if their election was deemed 'illegitimate'. The military was, however, always reluctant to intervene unless there existed a broad political consensus, civilian and military, in favour of intervention. It was more concerned to defend its own corporate interests: to remain stronger than the state military police forces commanded by governors; and to maintain internal hierarchy and discipline within the institution.

Democracy (albeit of a limited kind – with up to half of the adult population denied its political rights and excluded from the political process, with no parties of Left permitted to contest elections, with the distribution of seats in Congress favourable to the Right, and with the military having the *de facto* power to overthrow elected governments) nevertheless survived in Brazil beyond the immediate postwar years, as it did not in many Latin American countries, not least because of this military tutelage. In the mid-1950s Brazil was one of only four 'democracies' in Latin America, along with Chile, Uruguay and Costa Rica. The military, however, played a central role in events leading to Vargas's suicide in August 1954, attempted but narrowly failed both to prevent Kubitschek's inauguration in November 1955 and Goulart's assumption of power in August/September 1961 after Quadros's resignation, and successfully overthrew Goulart two-and-a-half years later. And it was to a military coup in March–April 1964 that Brazil's postwar democracy finally succumbed.

THE DUTRA ADMINISTRATION, 1946–1951

General Eurico Gaspar Dutra, who had served as Minister of War throughout the Estado Novo dictatorship, assumed the presidency of democratic Brazil on 31 January 1946. Two days later, on 2 February, the two houses of Congress met together as a Constituent Assembly. Until the new Constitution was finally agreed in September the 'Constitution' of the Estado Novo remained in force. Dutra in effect governed by decree-law. Although he had been elected as the candidate of the PSD with the decisive support of the PTB, he immediately formed a conservative coalition government consisting mainly of PSD and UDN politicians. Only one ministry (Labour) was given to the PTB. Significantly, his colleague General Pedro Aurélio de Góis Monteiro, who had served as Minister of War in 1934–1935 and again in 1945 when Dutra stepped down to run for election and Army Chief of Staff 1937–1944, was appointed Minister of War (although in September he left to become ambassador to Uruguay and in January 1947 he

was elected PSD senator for his home state of Alagoas). Apart from the economy⁵, Dutra devoted himself during his first year, indeed his first two years, to the restoration of state control of organised labour and the defeat of Communism.

At the end of the Second World War there had been a surge of labour unrest throughout Brazil which reached a peak during February and March and again in May 1946. The wages of most Brazilian workers remained in real terms below their prewar level and had failed to keep up with wartime and postwar inflation. And the establishment of a democratic political system and, more particularly, the crucial role the PTB had played in the election of Dutra as president had raised expectations. During the first six months of 1946 there were more than seventy major strikes involving more than 100,000 workers, notably a national bank strike, a strike in the coal mines in Rio Grande do Sul which lasted for thirty-four days – longer than any previous strike in Brazilian history, strikes with almost 100 percent support in the São Paulo metallurgical and textile factories, a strike on the Leopoldina railway, various stoppages in the ‘Light’ (the Canadian owned Light, Power and Telephone Company) which threatened to paralyse transport, light and power services in Rio and São Paulo, and persistent strikes by both dockers and stevedores in the ports of Rio de Janeiro and, more particularly, Santos (which had voted Communist in the elections and was now generally referred to as ‘Prestesgrad’).

Since it emerged from its long period of illegality and repression in April–May 1945, and since its strong showing in the December elections, the PCB had maintained its growth in all regions of Brazil. By the middle of 1946 the party claimed 180,000 members, making it by far the largest Communist party in Latin America. In a top secret document which offered the Secretary of State an exaggerated and somewhat hysterical ‘complete picture’ of Communist activities in Brazil William D. Pawley, Berle’s successor as U.S. ambassador in Rio de Janeiro, reported: ‘Hardly a town of over 1,000 inhabitants does not have a Communist office openly displaying the hammer and sickle . . . [and] actively engaged in trying to poison the minds of the peasants and workers against the United States principally and the Brazilian government to a lesser degree’.⁶ Big business had no doubt that the Communists were behind the renewed labour militancy.

⁵ On the economic policy of Dutra administration, see Chapter 5 in this volume.

⁶ Quoted in Leslie Bethell, ‘Brazil’, in Bethell and Roxborough (eds.), *op. cit.*, p. 61. This section draws heavily on Chapter 1 in that volume edited by myself and Ian Roxborough.

But in fact the role of the PCB remains unclear. It seems to have begun by opposing many of the strikes as ‘adventurist’; they were then tolerated; finally, after some hesitation, the Communist-led *Movimento Unificador dos Trabalhadores* (MUT), created in April 1945, decided that it could not afford not to lead them. At the same time the MUT pursued its policy of taking control of the unions away from the government appointed union leaders (the so-called *pelegos*) and the PTB. Local groups of union leaders, Communist or at least sympathetic to the PCB, were organised into ‘permanent commissions’ in the main industrial centres (more than forty of them in the state of São Paulo alone).

From the outset Dutra declared war on the more independent sectors of organised labour and on the Communists. In this he had the full support of Brazil’s employers and especially the industrialists who were anxious not only to control labour (and eliminate Communist influence over labour) in order more effectively to curb wage demands but also in order to create a more favourable climate for foreign (i.e., principally U.S.) direct investment in Brazilian industry. New and severe anti-strike legislation (Decree-law 9070, 15 March 1946) was introduced. Strike leaders especially those linked to the MUT were arrested by troops and the police. It was made clear (e.g., by the police chief of the Federal District on 12 March, by the Minister of Labour on 10 April) that the MUT had no legal status and that its activities would no longer be tolerated. Communists were systematically purged not only from the leadership of labour unions but also from federal and state bureaucracies. The military and the police, especially the political police, placed leading communists under close surveillance. On 23 May at a Communist meeting in the Largo de Carioca in Rio police mounted a cavalry charge and fired on the crowd wounding over a hundred. Brazil was in effect under ‘*um estado de sítio branco*’ (a de facto state of siege).

By September the government felt sufficiently confident that it had re-established its control over the unions to permit, somewhat surprisingly nevertheless, Brazil’s first National Labour Congress. It was held in Rio de Janeiro at the Vasco da Gama football stadium under the presidency of the Minister of Labour, Octacílio Negrão de Lima (PTB). In advance of the Congress the ‘independents’ (Communists and fellow travellers who had a strong presence in some 150 of Brazil’s 800 or so *sindicatos* but also independent minded union leaders belonging to the *Queremista* wing of the PTB) secured one important concession: each *sindicato* would send two delegates, one appointed by the union’s directorate, the other chosen or

elected by the members in general assembly. In defiance of the known government position the overwhelming majority of the 1,500–1,700 delegates, only 200–300 of whom were members of the PCB or fellow travellers, supported the main objectives of the MUT: union autonomy; the unrestricted right to strike; free collective bargaining; the foundation of a ‘horizontal’ national confederation of labour; and international affiliation to the Confederación de Trabajadores de América Latina (CTAL) and the World Federation of Free Trades Unions (WFTU). The fragile unity maintained for ten days was shattered when, at the third plenary session on 21 September, a dissident ‘ministerial’ group of two hundred or so withdrew, alleging Communist domination of the proceedings. The Minister then closed the Congress. The remaining delegates, however, voted to conclude the business of the Congress and agreed, among other resolutions, to establish for the first time a Confederação dos Trabalhadores do Brasil (CTB), with the Communist leader Roberto Morena as its General Secretary.

The Ministry of Labour refused to accept the validity of any of the resolutions of the National Labour Congress, never recognised the CTB (which therefore from the beginning operated outside the law) and withdrew official recognition from any union that affiliated to it. On 24 October President Dutra hurriedly signed a decree establishing an alternative Confederação Nacional dos Trabalhadores (CNT) based on the official state federations and national confederations. Because of Congressional opposition, however, the decree never came into force: the CNT was still-born. The new Constitution promulgated in September had incorporated most of the Labour Code (CLT) of the Estado Novo with all the restrictions it imposed on the autonomy and, above all, the financial independence, of unions, on free collective bargaining, on the right of workers to strike (especially in essential services and ‘basic industries’), and on the right of unions to form a national confederation of labour and to affiliate with international labour organisations. Some members of Congress had therefore protested against the executive’s violation of the Constitution in setting up the CNT. Instead – as permitted under the CLT but never implemented – first a Confederação Nacional dos Trabalhadores na Indústria (CNTI) and then a Confederação Nacional dos Trabalhadores no Comércio (CNTC), also based on existing and approved official union hierarchies, were established. In the meantime, under a new Minister of Labour appointed in the aftermath of the National Labour Congress fiasco, Morvan Dias Figueiredo, a *paulista* industrialist, intervention in union affairs by Ministry officials and by the police significantly increased.

There had been rumours as early as March 1946 that Dutra, always intransigently anti-Communist, was preparing a decree outlawing the PCB. In July Congressional leaders were summoned to the presidential palace to receive a detailed report on the 'communist threat'. In August U.S. ambassador Pawley was told by a senior official in the Rio police that the closure of the party by presidential decree was imminent. Under Article 114 of the September 1946 Constitution, the Supreme Electoral Tribunal could cancel the registration of any political party whose programme was deemed to be contrary to democratic principles or whose political orientation and funding could be said to be drawn from outside the country. The writing was on the wall for the PCB, after only eighteen months of legal existence. There were still, however, members of the cabinet, including Minister of War Góis Monteiro, who felt a move against the PCB was inopportune: a second round of congressional and state elections was due to be held in January 1947; domestic opinion was not yet prepared. On the international front, it should be remembered, the Cold War was still in its early stages.

The January 1947 elections represented the final stage in the democratisation of Brazil at the end of the Second World War. First of all, supplementary Congressional elections were held for nineteen additional deputies across several states as a result of new criteria for determining the size of each state's representation in the Chamber of Deputies based on its population in the 1940 Census and a third senator for each state as determined by September 1946 Constitution. These elections were again won by the PSD – it took seven of the nineteen seats in the Chamber and thirteen of the twenty-first Senate seats (see Tables 2.1 and 2.2 above, p. 97) – though with 30 percent of the vote compared with 43 percent in December 1945. The UDN came second with 21 percent of the vote (down from 26 percent a year earlier), the PTB third with 14 percent (up from 10 percent). The January 1947 elections thus further strengthened the tight grip that the PSD and UDN together already had on Congress.

Secondly, the first direct elections since democratisation in 1945 were held for the twenty state governors, each to serve a four-year term, and state legislative assemblies. The PSD won in eleven states, the UDN in seven, the PTB in one. The striking exception to the dominance of the big three parties was São Paulo, Brazil's most populous and industrialised state, where victory in the elections for state governor went to Ademar de Barros (PSP), coffee *fazendeiro*, industrialist, ex-Partido Republicano Paulista (PRP) politician who had been appointed state *interventor* by

Vargas at the beginning of the Estado Novo (and later dismissed) and who, after becoming a founder member of the UDN at the end of the Estado Novo, had created the Partido Social Progressista in 1946 as a vehicle for himself (with a strong populist message and image). Ademar won 35 percent of the vote, defeating Hugo Borghi (Partido Trabalhista Nacional) (30.5 percent) and Mário Tavares (PSD) (26 percent), to become São Paulo's first democratically elected governor. In the state elections the PSD won 40 percent of all the seats in the state legislative assemblies, the UDN 28 percent and the PTB 10 percent, though it should be noted that party labels meant different things in different states.

The PCB did not increase its share of the vote in the January 1947 Congressional elections. But nor did it lose ground. As in December 1945 the PCB polled around 9 percent of the vote (though, on a lower turnout, only 460,000 votes compared with 570,000 in the previous election). In the contest in São Paulo for the Senate seat left vacant when Getúlio Vargas chose to represent Rio Grande do Sul the industrialist Roberto Simonsen (PSD) narrowly defeated the Communist candidate, Cândido Portinari, the great Brazilian painter, by a margin of less than 4,000 votes. The Communists captured a total of sixty-four seats in fifteen state legislatures, electing eighteen out of fifty in the Federal District (the city of Rio de Janeiro), which made it the largest single party, eleven including Brazil's leading Marxist historian, Caio Prado Júnior, in São Paulo, nine in Pernambuco. Perhaps most significant of all, Communist support was decisive in the election of Ademar de Barros as governor of São Paulo. Instead of putting up its own candidate, the PCB, which was particularly strong in the industrial cities and suburbs of greater São Paulo (it had 60,000 members and had secured 180,000 votes there in 1945), had endorsed Ademar de Barros two weeks before the election.

During the early months of 1947, with the elections safely out of the way and with the Cold War reinforcing domestic anti-Communism (the Truman Doctrine had been unveiled in March 1947), the Dutra administration brought intense pressure to bear on the Tribunal Superior Eleitoral to rule against the PCB under Article 114 of the 1946 Constitution. On 7 May the TSE voted (though narrowly, by three votes to two) to cancel the legal registration of a party that in two successive democratic elections had polled half a million votes (10 percent of the total) and established itself as Brazil's fourth largest party. The Brazilian Left, which was not for its part always fully committed to legal strategies and the electoral

road to power, was now effectively excluded from 'formal' democratic politics (and remained so for the next forty years). There followed a wave of anti-Communist repression, with the authorities in São Paulo under instructions from Governor Ademar de Barros (who himself came under direct pressure from President Dutra) especially zealous to their efforts to put a stop to the activities of the Communist party. Hundreds of Communist cells in São Paulo were closed down as were hundreds more in Rio de Janeiro.

On the day the TSE pronounced the PCB illegal the Dutra administration promulgated Decree 23,046 under which the Confederação dos Trabalhadores do Brasil (CTB), always illegal, was finally closed down. Its elected leaders and officials of unions affiliated to, or even sympathetic to, the CTB were removed. Within three weeks all Communists, Communist sympathisers and 'independents' (including some leaders belonging to the PTB) had been purged from ninety-three unions (twenty-seven in São Paulo state, including ten in Santos, nineteen in Rio de Janeiro state, fourteen in the Federal District, twelve in Pernambuco). By the end of July 170 unions representing 300,000 workers had been 'intervened' and perhaps as many as 800–1,000 leaders dismissed. Intervention on this scale was unprecedented – even during the Estado Novo. Dutra had imposed complete state control of Brazil's labour unions – as tight as under the Estado Novo.⁷

In October 1947 Congress approved the dismissal of all civil servants (*funcionários públicos*) suspected of belonging to the PCB. There remained, however, the problem of the Communists who had been *elected* to public office in December 1945 and January 1947. From September 1947 the Dutra government pressed Congress to revoke their mandates. Finally, on 7 January 1948, with the support of half the UDN deputies and some deputies from the smaller parties, the PSD pushed through the *cassação* of the one Communist senator (Luís Carlos Prestes) and the fourteen Communist federal deputies together with all Communist state deputies and municipal councillors. The PTB, the recently formed Partido Socialista Brasileiro (PSB) and half of the UDN voted against the measure. Gregório Bezerra, PCB federal deputy for Recife and a participant in the attempted

⁷ At a private meeting in Rio in September Serafino Romualdi, the roving ambassador of the American Federation of Labor (AFL) and scourge of Communist labour leaders in Latin America, told Clifford German, the British labour attaché, that he had it on good authority that if free elections had been permitted (as redefined, for example, by the International Labour Organisation in 1947) Communists would have won control of 80 percent of Brazil's unions. Bethell, *op. cit.*, p. 64.

Communist putsch in November 1935, was chosen to speak for the *cassados* a week later in the last session of the Chamber of Deputies attended by elected representatives of the PCB for forty years.

The Constituent Assembly, its work completed in September 1946, became a bicameral legislature at the beginning of 1947. Even though the PSD alone had a narrow but clear majority in both houses – 158 of 304 seats in the Chamber, 39 of 63 seats in the Senate – Dutra continued to govern with the support of both the PSD and the UDN, the two biggest parties – and the small Partido Republicano (PR) based in Minas Gerais – under an informal *pacto conservador* rather than with the *getulista* PSD–PTB coalition that had elected him. Apart from the PCB (until January 1948) the only opposition came from the still relatively small PTB, which finally broke with Dutra in July 1947 and as a result lost its only cabinet post. The PSD–UDN/PR alliance was formalised in January 1948 with the signing of an Acordo Interpartidário and the establishment of an inter-party commission consisting of Vice-President Nereu Ramos (PSD), Senator Prado Kelly (UDN) and former President Artur Bernardes (PR) to ensure that it worked effectively. With overwhelming majorities in both the Chamber and the Senate, no significant opposition and the full backing of the military, Dutra faced none of the problems of governability that many of his successors had to face and thus had no difficulty serving a full term of office. The Acordo Interpartidário failed, however, in its unstated objective: to neutralise ex-President Vargas and prevent his return to power in the October 1950 presidential elections.

Getúlio Vargas had been forced to relinquish power in October 1945 after fifteen years as president. In the Congressional elections in December (in which candidates were allowed to run in more than one state for more than one position), he had been elected senator in Rio Grande do Sul (PSD) and in São Paulo (PTB) and federal deputy (PTB) in the Federal District (the city of Rio de Janeiro) and in six other states, accumulating a total of 1.3 million votes. More than one-fifth of the Brazilian electorate voted for him. Vargas chose to serve as senator for his home state, Rio Grande do Sul, but until June 1946 remained in exile on the family estancia in São Borja. The ex-dictator eventually took up his seat in the Constituent Assembly despite the protests of the UDN. In the January 1947 elections he campaigned throughout the country for PTB candidates for state assembly and PSD candidates for state governor. During the next two years Vargas became increasingly critical of the Dutra administration, which was now supported by the UDN as well as the PSD. He himself strengthened his

links with the PTB. And he vigorously defended his record as president between 1930 and 1945, especially his *conquistas econômicas e sociais*: state-planned and state-led national economic development, industrial growth, infrastructure development and national integration, labour legislation, and social welfare benefits for workers. To his opponents he was clearly campaigning for the presidency. On whether he would stand in October 1950 Vargas was, however, as was his style, enigmatic and ambivalent. In February 1949 in a famous interview with the journalist Samuel Wainer he was reported in *O Journal* as saying, '*Sim, eu voltarei, não como líder político, mas como líder de massas* [Yes, I will return, but not as a political leader, as leader of the masses]'. But then in March he declared in the *Correio do Povo*, '*Não pretendo ser candidato* [I do not intend to be a candidate]'.⁸

The Presidential Election of October 1950

The presidential succession was the dominant issue in Brazilian politics during the second half of Dutra's term of office. The UDN feared that many in the PSD still looked to Getúlio Vargas, the party's founder, honorary president and senator for Rio Grande do Sul for their inspiration, still supported the economic and social policies of the Estado Novo and were intent on recreating the PSD/PTB alliance that had elected Dutra in 1945. This was undoubtedly true, but the PSD was controlled by elements that had first abandoned, then deposed Vargas in 1945 because of his *trabalhista* populism, his support for *queremismo* and his approximation with the PCB, and had since forged new ties with the anti-*getulista* UDN in the Dutra administration and in Congress. By July 1949 the search was on for a single PSD/UDN/PR candidate of national unity capable of marshalling the conservative forces against the possible return of Vargas. At least twenty names from the PSD and UDN were seriously considered. Dutra himself wanted a neutral, non-party figure: the Minister of War, General Canrobert Pereira da Costa. In the end it proved impossible to agree on a candidate who could command the support of majorities in both the PSD and the UDN. The *Acordo Interpartidário* did not extend this far.

In April 1950 the UDN broke ranks and opted for Air Force Brigadier Eduardo Gomes, its (defeated) candidate in 1945. Two smaller parties, the

⁸ Quotations in Pedro Cezar Dutra Fonseca, *Vargas: o capitalismo em construção, 1906–54* (São Paulo, 1987), p. 344.

PL and the PRP, joined forces. The PSD in Rio Grande do Sul proposed Vice-President Nereu Ramos, who was national president of the PSD, as the party's candidate. But Benedito Valadares, state *interventor* in Minas Gerais during the Estado Novo, former president of the PSD and now the powerful boss of the *mineiro* PSD, persuaded Dutra that a candidate from Minas Gerais, the state where the PSD was strongest, was preferable. An unknown *mineiro* lawyer and federal deputy Cristiano Machado was selected. He had behind him the national PSD machine, but he proved to have no strategy to counter the unquestioned electoral weight of Getúlio Vargas.

If Vargas were to run in 1950, it could only be as the candidate of the PTB. The PTB had demonstrated electoral strength in the Federal District (Rio de Janeiro) and in Rio Grande do Sul in December 1945 and January 1947, and the illegalisation of the PCB in May 1947 had provided a significant boost since the two parties competed for the support of organised labour. But the support of the PTB alone was not enough to win the presidency. In particular, the PTB had never really penetrated the state of São Paulo (with its 20 percent of the electorate). Governor Ademar de Barros, on the other hand, who had presidential ambitions of his own, had built up a powerful political machine in São Paulo, the Partido Social Progressista (PSP), but remained a secondary figure at the national level. Thus, the possibility of a popular PTB/PSP alliance against a possible conservative, 'elitist' PSD/UND coalition gained ground.

There had been speculation of an approximation between Vargas and Ademar de Barros since late 1948. A first meeting between the two took place at the end of 1949 and an agreement that Vargas would be the candidate of the two parties was reached in March 1950. (There was even talk of a future fusion of the two parties with Ademar as its candidate in 1955.) The PTB Convention selected Vargas as its candidate on 16 June, the PSP Convention on 29 June. The 'Frente Popular' *chapa* (slate) was completed by the nomination of João Café Filho, a PSP federal deputy from Rio Grande do Norte who had supported Vargas in 1930, opposed him in 1937, and gone into exile in Argentina during the Estado Novo, as vice-presidential candidate.

How would the military, which had deposed him in October 1945, react to a possible Vargas victory in the presidential elections of October 1950? Some generals through personal links and nationalist ideology were pro-Vargas. But many, including old *tenente* allies like Juraci Magalhães, Juarez Távora, Eduardo Gomes and Oswaldo Cordeiro de Farias who had turned

against him during 1930s, especially with the establishment of the Estado Novo dictatorship, were now sympathetic to the UDN. And old allies and Axis sympathisers from the Estado Novo like Dutra himself and Góis Monteiro, who had turned against him in the course of 1945 as he flirted with *trabalhismo* and an alliance with the Communists, were sympathetic to the PSD. However, the military high command, lacking political and ideological cohesion, was not inclined to interrupt the democratic game they had set in motion five years earlier by blocking the return of Vargas to the presidency through elections. Indeed in January 1950 the Minister of War General Pereira da Costa wrote to his regional commanders: '*O Exército não veta ninguém, não apoia ninguém . . . Com o Exército não haverá golpe. Sem o Exército ninguém pode pensar em dá-lo. Só se for contra mim. E se for contra mim eu reagirei*' [The Army vetoes no-one, supports no-one. With the Army there will be no coup. Without the Army no-one could think of attempting it. Only against my wishes. And if it is against my wishes I will react].⁹ It was enormously helpful for the viability of Vargas's candidacy that in the May 1950 elections for the influential *Clube Militar*, which included both active and retired officers, nationalist generals Newton Estillac Leal and Julio Horta Barbosa won the presidency and vice-presidency, respectively (against Cordeiro de Farias running on an anti-Communist platform). Most generals found it difficult to swallow the election of Estillac Leal, but General Zenóbio da Costa, commander of the First Army, guaranteed his election.

Thus, the line-up for the October 1950 presidential election was as follows: Cristiano Machado (PSD, with the support of the PR), Eduardo Gomes (UDN, with the support of the PL and the PRP) and Getúlio Vargas (PTB and PSP), together with João Mangabeira, the candidate of the PSB. In the two-month campaign (August and September) Vargas made use of the PTB machine, such as it was, especially in the two states where the party had its real strength, Rio de Janeiro and Rio Grande do Sul, and the more effective PSP machine in São Paulo. He also successfully exploited the divisions in the PSD, capturing the support of many dissident *getulista* PSD state political bosses, including his son-in-law Amaral Peixoto in Rio de Janeiro state, who abandoned their official candidate, Cristiano Machado, and delivered the vote to Vargas. (As a result a new verb entered the Portuguese language: *cristianizar*, to deny support to your

⁹ Quoted in Maria Celina Soares D'Araújo, *O segundo governo Vargas 1951–1954* (Rio de Janeiro, 1982), p. 52.

own party's candidate.) Informal alliances were made with PSD leaders campaigning for governor in nine states, including Minas Gerais, where Vargas supported Juscelino Kubitschek, and Rio Grande do Sul, where he supported Ernesto Dornelles. In Pernambuco, he gave his backing to, and was in turn backed by, the UDN candidate João Cleofas in his battle against Agamenon Magalhães (PSD), who was supporting the official PSD candidate for president. But he essentially campaigned above parties. He owed his sensational victory primarily to his direct, personal appeal to unionised workers, to nationalist businessmen, professionals and intellectuals, and the people generally (at least those who had the vote). And this despite a new electoral law (July 1950) which had abolished group voter registration by public and private employers, the so-called *ex-officio alistamento*, which had proved so effective in the election of Dutra in 1945. Ademar de Barros, of course, played an important part in Getúlio's victory: no less than a quarter of Vargas's vote came from São Paulo where he won 64 percent of the *votos válidos* – in spite of so-called *paulista* hostility to Vargas dating back to the Civil War of 1932.

Vargas (PTB) was elected president with 3.85 million votes (48.7 percent of the valid vote – less than Dutra's 55 percent largely because of the split in the PSD). Gomes (UDN) came second with 2.3 million votes (29.7 percent, down from his 35 percent in 1945), Machado (PSD) third with 1.7 million (21.5 percent). Vargas won in all states except Pará, Maranhão, Piauí, Ceará and Minas Gerais, the only major state he lost (Gomes won narrowly in a three-way split). He won in the Federal District (Rio de Janeiro), and indeed in all Brazil's big cities. Café Filho (PSP) was separately elected vice-president, but with only 2.5 million votes, defeating Odilon Braga (UDN) by 200,000 votes.

Congress (the whole of the Chamber of Deputies and one-third of the Senate), state governors and state assemblies were also elected in October 1950. In the elections for the Chamber the PSD and the UDN were again the main victors. But the PSD lost considerable ground (and its overall majority): the number of seats it held falling from 158 to 112. It remained, however, the largest single party. The UDN representation was more or less stable, but both the PTB (fifty-one seats, up from twenty-four) and the PSP (twenty-four up from five) made significant gains. See Tables 2.1 and 2.2 above, p. 97. The PSD won thirteen of the twenty state governorships (two in alliance with the PTB), but the main prize, São Paulo, went to Ademar de Barros's candidate, Lucas Nogueira Garcez (PSP, in a coalition with the PTB).

Vargas's victory in the presidential elections was accepted by the economic elites and by the military. Only the UDN led by the journalist and rising politician Carlos Lacerda who had famously written in the *Tribuna da Imprensa* on 1 June 1950: '*O Sr Getúlio Vargas, senador, não deve ser candidato a presidência. Candidato, não deve ser eleito. Eleito, não deve tomar posse. Empossado, devemos recorrer a revolução para impedi-lo de governar* [Getúlio Vargas, senator, must not be a candidate for the presidency. If a candidate, he must not be elected. If elected, he must not take office. If he takes office, we must resort to revolution to prevent him from governing]'¹⁰ contested it – on the allegedly constitutional grounds that Vargas had not secured an absolute majority of the popular vote. On 31 January 1951 Dutra, having completed his full five-year term as president, handed over power to Getúlio Vargas.

THE VARGAS ADMINISTRATION, 1951–1954

Getúlio Vargas, the former dictator, returned to power in January 1951 as a result of the elections for president in October 1950 – '*nos braços do povo* [in the arms of the people]', as he liked to say. He had little experience of working with Congress; he had no strong party base in Congress; and he had no taste for building alliances in the interests of governability. He could not, however, govern with the PTB alone, nor even with the PTB/PSP coalition which had elected him. He had no choice but to rely on the PSD which had lost the presidency and lost its absolute majority in both houses of Congress but remained the largest party in both Chamber and Senate, with 37 percent and 49 percent of the seats, respectively, and controlled thirteen of the twenty state governorships. His first all-party, all-region cabinet was conciliatory and conservative. Five of the eight civilian ministers were drawn from the PSD, including the *gaúcho* João Neves da Fontoura (Foreign Relations), who had been his campaign manager and the *mineiro* Francisco Negrão de Lima (Justice). Two São Paulo *empresários*, Horacio Lafer and Ricardo Jafet, were appointed to the Ministry of Finance and the presidency of the Banco do Brasil, respectively. There was even room for one UDN minister, João Cleofas (Agriculture). Like Dutra, Vargas appointed only one minister from the PTB: its national president Danton Coelho (Labour). (Coelho resigned in September in protest at the return of Hugo Borghi to the PTB. He was replaced by José Segadas Viana, former

¹⁰ Fonseca, op. cit., p. 353, n. 20.

head of the Departamento Nacional do Trabalho and president of the PTB in the Federal District.)

The PSD leadership remained deeply suspicious of Vargas, but some sections of the party had received his support and had supported him in the election, and his son-in-law Ernani Amaral Peixoto was now not only PSD governor of Rio de Janeiro but the party's national president. The so-called *chapa branca* of the UDN, especially in the Northeast, was willing to collaborate with Vargas, but the more radical wing of the party in Congress, the majority, known as the *banda de música*, was from the beginning implacably hostile to Vargas. Anti-*getulismo* had been their reason for being since their opposition to the Estado Novo in 1943–1945 and especially after Vargas's political shift to the populist Left in 1945. And now, after a period in which the UDN had cooperated with the government of Dutra, Vargas was back in power and they were once again out. The UDN never believed Vargas would respect the new democratic Constitution. And as economic liberals opposed to state intervention they resisted his nationalist economic policies, although they approved his proposal to create a state company with a monopoly over oil reserves and their extraction. The nationalist campaign under the slogan '*O petróleo é nosso* [The oil is ours]' had its origins in the late 1940s, and generated an irresistible level of urban popular mobilisation, possibly the greatest seen thus far in Brazil. Vargas introduced a bill for the creation of Petrobras into Congress in December 1951; it became law in October 1953. The creation of Petrobras proved to be one of the outstanding successes of the Vargas administration.

As for the military, Vargas appointed the nationalist General Newton Estillac Leal, President of the *Clube Militar*, as Minister of War, but at the same time made strenuous efforts to conciliate Leal's opponents. Estillac Leal, however, resigned in March 1952 as a result of his fundamental disagreement with the new United States–Brazil military agreement negotiated by Neves da Fontoura under which Brazil, although declining to send troops to Korea, would supply the United States with strategic minerals in return for further U.S. help in modernising the Brazilian military and further U.S. investment in Brazil. And in May, in a dramatic reversal of the vote two years earlier, the antinationalist, anti-Communist Cruzada Democrática candidates, Generals Alcides Etchegoyen and Nelson de Mello, defeated Estillac Leal and Horta Barbosa in a fiercely contested election for president and vice-president of the *Clube Militar*, which considerably weakened Vargas's position with the military and at the same time strengthened the military's links with the UDN.

Brazilian *empresários*, divided and ambivalent in relation to Vargas's economic policies, were united and increasingly alarmed at what they regarded as his permissiveness in relation to labour militancy. January 1953 witnessed the first significant strikes – led by the textile workers of Rio de Janeiro, with some Communist involvement – since Dutra's crackdown on labour in 1946–1947. And March–April 1953 saw a twenty-four-day general 'strike of 300,000' in São Paulo. The issue was in part the right to strike against the wishes of the *pelegos* but, more important, the erosion of wages by inflation which has risen from 12 percent in 1951 to 21 percent in 1953 (and considerably higher in the case of basic foodstuffs). In June 100,000 dock workers in Rio, Santos and Belém went on strike. The strikes were firmly, at times violently, repressed, but the Vargas government was nevertheless blamed for creating a climate of disorder.

In the meantime, in March 1953, a 36-year-old São Paulo state deputy (and future president), Jânio Quadros, had been elected *prefeito* (mayor) of the city of São Paulo. The candidate of the PDC, PSB and dissident elements in the PTB, he defeated Francisco Cardoso, the candidate of a seven party coalition (PSP/PSD/PTB/UDN/PR/PRP/PRT), backed not only by the São Paulo state governor, Lucas Nogueira Garcez, Ademar de Barros's successor, but by Ademar himself, President Vargas, João Goulart (the president of the PTB), the UDN national leadership and, not least, São Paulo's two leading newspapers. Quadros fought a populist campaign, organising Sociedades de Amigos de Bairros, with a powerful antielite, anticorruption message. He captured 66 percent of the vote against 27 percent for Cardoso. And eighteen months later, in October 1954, Quadros went on to be elected governor of the state, although this time he began his campaign with the informal blessing of Vargas and the PTB.

It has been argued, as a later justification for what happened in the second half of Vargas's mandate, that in the middle of 1953 his administration entered a second phase, notable for a *virada nacionalista* (nationalist turn), both economic and political, a *virada a esquerda* (turn to the Left) even, with a more radical nationalist discourse, economic policies and foreign policy.¹¹ In fact, the June–August 1953 ministerial reshuffle represented a continuity of the policy of conciliation, consensus seeking and inter-party collaboration. Vargas sought to create a '*ministério da experiência*'. Oswaldo Aranha, a close collaborator of Getúlio since the revolution of

¹¹ On the economic policies of the Vargas administration, see Chapter 5 in this volume.

1930, replaced Lafer as Finance Minister. The young, moderate *mineiro* PSD politician Tancredo Neves became Minister of Justice. There was an attempt at a new approximation with the UDN, at least with the less radical, less ideological elements in the UDN: Vicente Rao, sympathetic to the UDN, became Foreign Minister; Cleofas was retained at Agriculture; and his UDN colleague José Américo de Almeida was given Transport and Public Works, a post he had held twenty years earlier in Vargas's provisional government following the Revolution of 1930 before becoming (briefly) the 'official' candidate for the presidency in 1937.

But overshadowing all these appointments, as part of Vargas's attempt at a approximation with organised labour after the strikes and protests at the beginning of the year, was that of João 'Jango' Goulart at the Ministry of Labour, replacing Segadas Viana. Goulart, a young (34-year-old) rancher and politician from São Borja in Rio Grande do Sul, Vargas's birthplace, and personally close to Vargas, had been state deputy, federal deputy and since 1952 national president of the PTB. Because of his links to the leaders of the labour unions and social welfare institutes, he had the reputation, largely unwarranted, of being a radical *trabalhista* and somewhat too close to Perón in Argentina. Vargas had already in December 1951 more than trebled the minimum wage, which had remained unchanged since December 1943, despite considerable inflation at the end of the War and during the Dutra administration. In February 1954 Goulart proposed a further 100 percent increase.

Goulart's proposal produced, in protest, a *Manifesto dos Coroneis* (20 February), drafted by Colonel Golbery do Couto e Silva, the future ideologue of the military dictatorship installed ten years later, and signed by forty-two army colonels and thirty-nine lieutenant-colonels. The business community, already concerned at the failure of the government's stabilisation efforts, was also strongly opposed to the minimum wage proposal. Vargas was forced to dismiss Goulart. João Neves da Fontoura, who had become an opponent of Vargas after being dismissed as Foreign Minister, had already set the alarm bells ringing by claiming in a sensational interview that he had evidence of a secret Vargas-Perón plan to establish a *república sindicalista* in Brazil and to create a Southern Cone bloc to challenge U.S. hegemony in the region when Vargas made an emotional May Day speech in which he praised Goulart as an '*incansável amigo e defensor dos trabalhadores* [tireless friend and defender of the workers]' and implemented the 100 percent increase in the minimum wage together with improvements in social welfare provision and pensions. He also announced that he would

extend existing labour legislation to rural workers, ending his speech with this provocative statement: '*Constituis a maioria. Hoje estais com o governo. Amanhã sereis o governo* [You [the workers of Brazil] constitute a majority. Today you are with the government. Tomorrow you will be the government]’.

The Suicide of Vargas August 1954

The speech of 1 May was a major strategic error on the part of Vargas. The opposition became more organised and aggressive. There was growing civil and military opinion in favour of his removal from the presidency. The press in both Rio de Janeiro (*O Globo*, *Correio da Manhã*, *Diário Carioca*, *Diário de Notícias*, *O Jornal*, and especially Lacerda’s *Tribuna da Imprensa*) and São Paulo (*O Estado de São Paulo*, *Folha da Manhã*) was against him. In June three of the smaller parties in Congress – the PDC, the PL and the PR – joined the UDN in demanding his impeachment. The chosen ground was corruption (Vargas was accused of permitting the Banco do Brasil illegally to finance the newspaper *Ultima Hora* as a semiofficial organ of the government to counteract the overwhelmingly anti-*getulista* press, especially the *Diários Associados* chain belonging to Assis Chateaubriand), but also administrative incompetence, alliance with Perónism and even sympathy for communism! And then there were Vargas’s alleged dictatorial ambitions. The leaders of the UDN never believed that Getúlio supported democratic institutions and practices. They recalled what had happened in November 1937 (the *golpe* which aborted the presidential elections due to be held in January 1938 and established the Estado Novo dictatorship) and the *golpe* they believed was planned, but eventually frustrated, in October 1945 to abort the presidential elections due to be held in December and establish a populist dictatorship. Vargas did not have the constitutional right to be reelected in 1955, but he was capable of doing a deal with Ademar de Barros: Ademar to succeed him in 1955 and he himself to return to power in 1960. The political elimination of Getúlio Vargas came to be seen as the only guarantee of the survival and strengthening of democracy and constitutional order. But despite a hysterical speech (by his own later admission) from Afonso Arinos de Melo Franco, the leader of the UDN in the Chamber, a proposal to impeach the president was defeated 136 to 35. The UDN then called for his resignation (*renúncia*), a call that was ignored. Therefore, as so often in its short history, the UDN turned to the military option. The military would have to intervene to depose the president.

A justification for overthrowing Vargas was provided by an assassination attempt on Carlos Lacerda, journalist, owner and editor-in-chief of the *Tribuna da Imprensa*, founder of the *Clube da Lanterna* of right-wing UDN politicians in 1953, and one of Vargas's most outspoken opponents, by a hired gunman Alcino do Nascimento in the Rua Tonelero, Copacabana on the night of 4–5 August. Lacerda was only wounded in the foot, but his personal bodyguard Air Force Major Rubens Florentino Vaz was killed. A Commission of Enquiry identified Gregório Fortunato, the black *gaúcho* head of Vargas's personal security guard and his servant for thirty years, as the source of the criminal attack. It was never established who had instructed Gregório (a Vargas family member? a political ally?), but there was never any proof that Getúlio himself was involved.

As was to be expected, the UDN in Congress now intensified its earlier demands for Vargas's resignation. More serious, although Getúlio continued to have the backing of Minister of War Zenóbio da Costa, he had by now lost whatever broad military support he had once had. On 22 August Marshal Mascarenhas de Moraes, former commander of the Brazilian forces in Europe during the Second World War and now the Armed Forces' Chief of Staff, also demanded his resignation. On 23 August a Manifesto calling for his *renúncia* was signed by twenty-seven generals, including Canrobert Pereira da Costa, a former Minister of War who had been elected president of the *Clube Militar* in May, Juarez Távora, head of the new War College, the Escola Superior de Guerra (ESG), founded in August 1949, and Cordeiro de Farias. All of them were sympathetic to the UDN, but also many former supporters like Peri Constant Bevilacqua, Machado Lopes, and Henrique Teixeira Lott (who was to play a very different role fifteen months later) were now in favour of Vargas's *renúncia*. When Zenóbio da Costa finally abandoned him, further resistance became impossible. Vargas had no alternative base of support, civil or military, except *o povo* (and calling on the people presented a different set of dangers). And at seventy-two he might have perhaps lost something of the taste for power and the energy required to deal with an extremely complex situation and manipulate the political and military forces opposing him. There was no way out. Facing a repeat of October 1945, Vargas preferred to commit suicide.

On 24 August 1954 at 8.30 a.m., in his bedroom in the Palácio do Catete, Getúlio Vargas put a bullet through his heart. If ever there was a death foretold. Suicide was something of an obsession with Vargas. In other decisive moments in his political life, notably 3 October 1930, the day the rebellion against President Washington Luís began, in July 1932 when he

had to take the decision to send federal troops to put down the rebellion in São Paulo, and in October 1945 facing removal from power by the military, death was considered as a response to political failure.

Whatever the element of personal tragedy Vargas's suicide was, and was intended to be, a political bombshell. Besides a short note hand-written only hours before his death, Vargas left a *carta-testamento*, one of the most famous documents in Brazilian history.¹² It had apparently been dictated by Vargas to the journalist José Soares Maciel Filho, his favourite editor and ghostwriter, two weeks earlier as an explanation for a possible *renúncia* following the Rua Tonolero incident. It was typed by Maciel (Vargas did not type) and possibly edited (how much was added?) before being approved and, as his daughter Alzira testified, signed by Getúlio. Vargas had always been, he said, a slave of the people (*'um escravo do povo'*). He had returned to power in 1950–1951 in the arms of the people (*'nos braços do povo'*) and had sought to defend the people and particularly the very poor (*'os humildes'*) against the powerful interests (*'os poderosos interesses'*) impeding his efforts to govern the country in the national interest and the interests of the people. Now, old and tired (*'velho e cansado'*), serenely (*'serenamente'*), he was taking the first step on the road to eternity and leaving life to enter History (*'o primeiro passo no caminho da eternidade e saio da vida para entrar na História'*).

The suicide of Getúlio, and his nationalist *carta-testamento*, which was immediately broadcast on Radio Nacional and later published in all the newspapers, had an enormous popular impact. Hundreds of thousands of Brazilians went onto the streets of Rio de Janeiro, Porto Alegre Belo Horizonte, Recife and other cities. There were scenes of extreme emotion (and some violence). In Rio huge crowds accompanied the body to Santos Dumont airport for transportation to Rio Grande do Sul and burial in São Borja. For the opposition UDN it was a political disaster. Their victory over Vargas proved to be a Pyrrhic victory. All they had gained from the attack on Lacerda was lost. The *golpistas* had been thwarted. There would be no break in the constitutional order. Vice-President Café Filho assumed the presidency in August 1954 (although the UDN at least expected him to be malleable). In the longer term Vargas's suicide revitalised *getulismo* and identified the UDN even more with anti-*getulismo*. And it gave renewed strength to the *getulista* alliance of the PSD and PTB against the UDN,

¹² The text can be found in Fonseca, op. cit., pp. 453–4. For an analysis of the *carta-testamento*, see José Murilo de Carvalho, 'As duas mortes de Getúlio Vargas', in *Pontos e bordados* (Belo Horizonte, 1998).

ultimately to benefit of Juscelino Kubitschek in his bid for the presidency in 1955.

THE CAFÉ FILHO ADMINISTRATION, 1954–1955

The immediate aftermath of Vargas's suicide under pressure from the military to resign was a series of crises in civil–military relations that threatened to end Brazil's first experiment with democracy after less than a decade.

President João Café Filho, who as vice-president had had little influence in the Vargas administration and had grown distant from Ademar de Barros, the leader of his own party, the PSP, found it easier to deal with the UDN, to whom indirectly he owed his position, than either the PSD or the PTB. He appointed some PSD ministers, but UDN politicians like Raúl Fernandes (Foreign Relations) and UDN sympathisers like the orthodox, liberal economist Eugênio Gudin (Finance) were in the ascendant. On the advice of Canrobert Pereira da Costa, in an effort to unite the armed forces, he appointed as Minister of War Henrique Teixeira Lott, a professional soldier and supposedly politically neutral.

In Congress, able to count on only the UDN and the smaller parties – PR, PL, PRP and PDC – Café Filho began with the support of little more than a third of the federal deputies and senators. And the Congressional elections held on 3 October 1954 for the Chamber and two-thirds of the Senate, less than six weeks after Vargas's suicide, did nothing to improve his already weak situation. The PSD maintained and slightly strengthened its position in the Chamber, as did the PTB and the PSP; the UDN won slightly fewer seats than in 1950, though Carlos Lacerda was elected in the Federal District. In the Senate elections the PSD won sixteen seats, the PTB twelve and the UDN only nine. See Tables 2.1 and 2.2 above, p. 97. In the eleven-state governorship elections the biggest surprise was the victory of future president Jânio Quadros, mayor of São Paulo, against the well-oiled machine of Ademar de Barros. It marked a major setback in the extraordinary political career of Ademar de Barros and a further stage in the even more extraordinary political career of Jânio Quadros (which will be described in more detail later).

The Presidential Election of October 1955

Since Café Filho could not be reelected it was the presidential election of October 1955 that attracted most attention during his brief presidency. First to declare was Juscelino Kubitschek de Oliveira. Born into

poverty in Diamantina in 1902, after training as a doctor at the Faculdade de Medicina in Belo Horizonte and in Paris, and following a socially advantageous marriage, Kubitschek had been elected to Congress in 1934 and nominated *prefeito* of Belo Horizonte in 1940, more a protégé of Minas *interventor* Benedito Valadares than of Getúlio Vargas. After organising the state PSD at the end of the Estado Novo, he was again elected federal deputy in December 1945, with more votes than any candidate except Vargas, and then in 1950 governor of Minas Gerais, defeating Milton Campos of the UDN. He was a successful, development-minded governor, focussing mainly on energy and transport, electricity and roads, and he governed with the support of the PTB which brought him increasingly to the attention of Getúlio as a possible successor. In August 1954 Kubitschek was the only state governor to fly to Rio de Janeiro to attend Getúlio's funeral.

Juscelino launched his bid for the PSD presidential nomination only ten days after the October 1954 elections. He had the solid backing of leading figures in the *mineiro* PSD, including Valadares himself, Gustavo Capanema, José Maria Alkmin, Francisco Negrão de Lima and Tancredo Neves, many of whom favoured the maintenance (or restoration) of the PSD/PTB alliance. He also had the support of Ernani do Amaral Peixoto, Vargas's son-in-law and president of the PSD nationally. His main rival was Nereu Ramos, vice-president under Dutra who had lost the nomination to Cristiano Machado in 1950 but had been elected to the Senate in 1954 and who favoured a close working relationship with the UDN. President Café Filho, the UDN and the military were opposed to what they saw as a possible return to power of the recently defeated *getulista* forces through a candidate backed by the PSD in alliance with the PTB. Lacerda as usual supported military intervention against the possibility. UDN and PSD dissidents (in, for example, Pernambuco, Santa Catarina and Rio Grande do Sul) began the search for a politically neutral, 'candidate of national unity'. For a time it seemed that Etelvino Lins, governor of Pernambuco and leader of the PSD since, as *interventor* in 1945, he had first organised the party there, supported by former president Dutra and acceptable to the UDN, might play that role. But, after securing the support of a majority in the national directorate, and the backing of several state directorates, Juscelino Kubitschek narrowly won nomination as the official candidate of the PSD at its National Convention in February 1955.

Pressure was immediately brought to bear on Kubitschek by UDN and PSD dissidents to withdraw. Instead Kubitschek was authorised to formalise an alliance with the PTB, bringing together once again PSD

latifundiários (big landowners), who could deliver the rural vote, and PSD businessmen and industrialists with PTB unionised workers (and some PTB industrialists) in favour of a broad programme of national economic development. It was the *getulista* alliance that had elected Dutra in 1945, but without Getúlio's radical *trabalhista/nacionalista* populism. In April, in the house of Oswaldo Aranha, João Goulart, one of the least ideological of PTB leaders, was invited to be the candidate for vice-president and two cabinet posts (Labour and Agriculture) were offered to the PTB in a future Kubitschek administration. The PTB had considered launching its own candidate, in alliance with the PSP, even in alliance with the UDN. This was the best deal available.

In May the PSP, despite having been beaten for the governorship of São Paulo by Jânio Quadros in October, declared that Ademar de Barros would be a candidate for the presidency. In June the UDN, after failing with Nereu Ramos and Eitelvino Lins, and after even considering an approach to Jânio Quadros, decided on another candidate from the military, despite the fact that its military candidate in 1945 and 1950, Air Force Brigadier Eduardo Gomes, had twice been heavily defeated. This time it chose General Juarez Távora, Café Filho's head of the Casa Militar. A *cearense*, Távora was an *ex-tenente* who had played an important role in the Revolution of 1930 and become 'Viceroy of the North' but had broken with Getúlio even before Estado Novo and become an intransigent anti-*getulista*. A devout Catholic and something of an idealist who appealed in particular to the petit-bourgeoisie of the Northeast, General Távora secured the backing of a number of the smaller parties, including the PDC, the PSB and the PL. The military high command, that is to say, Generals Lott and Pereira da Costa, made it quite clear that they regarded him as a candidate of these political parties, not the armed forces. Finally, the former leader of the Integralistas and the author of the best-selling *Vida de Jesus*, Plínio Salgado, put himself forward as the candidate of the PRP with the slogan 'Uma elite para as massas'!

Every effort was made by the UDN to frustrate Juscelino Kubitschek's bid for the presidency, especially after the Juscelino-Jango (J-J) alliance was confirmed. Perhaps it was time for Brazil to change from a presidential to parliamentary political system. Perhaps there should be an amendment to the 1946 Constitution by which an absolute majority of the vote was required to win a presidential election. (This was the argument that was used, in vain, in an attempt to deny Vargas victory in 1950.) Perhaps in future presidents should be elected indirectly by Congress. The UDN

promoted one particular reform of the electoral system – the introduction of the *cédula única oficial* (see above, p. 92) – which aimed to reduce fraud but at the same time threatened PSD domination of the more backward areas of the Brazilian interior, where under the old system in which ballot papers were issued by parties and candidates they were able, the UDN argued, to manipulate the poor and ignorant. Without this reform, the October elections would not be legitimate, and might have to be cancelled – if necessary by military intervention. The PSD eventually had to accept that without the reform there would be no elections and without elections Kubitschek (who was opposed to the reform) would not assume the presidency. The reform was agreed on 30 August.

There had been rumours of a possible *golpe* as early as January–February. These became more persistent after April, and especially after the entire Vargas family – his son Lútero, his daughter Alzira, his son-in-law Amaral Peixoto, his niece Ivete – backed Juscelino, and Luís Carlos Prestes from exile gave his support to the Juscelino–Jango ticket. The PCB was illegal but put up candidates for election through other parties, in particular the PTB, in return for the votes they could mobilise, especially in São Paulo and the Federal District. A *Movimento Nacional Popular Trabalhista* (MNPT), thought to be 80 percent Communist, appeared on the scene, and grew rapidly in strength, working jointly with the Confederação Nacional de Trabalhadores da Indústria (CNTI), with its two million members. In August the MNPT officially declared its support for Kubitschek and Goulart (with the suspicion – at least in the mind of Carlos Lacerda – that a deal had been struck to legalise the PCB). It was, however, eventually declared illegal by the Supreme Electoral Tribunal.

Throughout the first half of 1955 Café Filho, who was personally opposed to the Kubitschek–Goulart ticket, repeatedly insisted that the October elections would take place and that whoever was elected would take power. The military, however, remained divided. Many senior military figures in the Café Filho government, notably Armed Forces' Chief of Staff, Canrobert Pereira da Costa, and the head of the Casa Militar, Juarez Távora, and the majority of the colonels attached to the Escola Superior de Guerra, were strongly anti-*getulista* and anti-Communist and had close links with UDN. (Távora was eventually named UDN candidate for the presidency, as we have seen.) In August a dying Pereira da Costa made a series of inflammatory speeches, a clear incitement to military intervention. But there was no military consensus for cancelling either the elections or the

presidential succession. Other senior generals like Zenóbio da Costa, Getúlio's last Minister of War, and General Amaury Kruel, were openly in favour of Kubitschek and Goulart. Minister of War Lott himself was opposed to military intervention or indeed any military participation in the political process. The *Movimento Militar Constitucionalista*, which had been created immediately after Getúlio's suicide, had grown in strength and become a considerable force by the middle of 1955. Its slogan was: '*Eleições na data prevista e posse dos eleitos* [Elections on the dated fixed and those elected to take office]'. Nevertheless, only in September was it certain that the October elections would be held.

Kubitschek, the least known of the four presidential candidates, had been campaigning for almost a year, his rivals for only a few months. His campaign was certainly the most energetic. He travelled throughout the country in August and September, making use for the first time in a Brazilian election of an airplane (a DC3), women's committees and television, though it had yet to reach many homes. JK's campaign was funded largely by companies, domestic and foreign, expecting to benefit from his programme for economic development and investment in energy and transport, and he massively outspent his opponents. His victory on 3 October was, however, a narrow one. Out of a population of 58 million, 15.3 million were registered to vote (only slightly higher than in 1954), and 9.1 million voted. Kubitschek (PSD/PTB) polled 3.1 million votes (35.7 percent of the valid vote). It was the lowest presidential vote in the three elections since the end of the Estado Novo. Távora (UDN) polled 30 percent, Ademar de Barros (PSP) 26 percent and Plínio Salgado a surprising 8 percent (700,000 votes). No less than a quarter of Kubitschek's votes came from his home state of Minas Gerais. In São Paulo he secured less than 13 percent of the vote, losing heavily to Ademar and Távora (who was backed by governor Jânio Quadros). Ademar also won in the Federal District. In the eight biggest states Kubitschek secured more than 40 percent of the vote only in Minas, Rio de Janeiro and Bahia. In the election for vice-president João Goulart (PTB/PSD) had an even narrower victory, defeating Milton Campos (UDN), a former governor of Minas Gerais, by 3.6 million votes to 3.4 million. Even though the vote was mandatory, a record 40 percent of registered voters (nine million) abstained (compared with 17 percent in 1945 and 28 percent in 1950), though a new electoral register in 1956 (described earlier) would demonstrate that at least two million of these voters did not really exist.

The Novembrada

The election of Juscelino Kubitschek (PSD) and João Goulart (PTB) in October 1955 produced in the following month a series of *golpes* and threats of *golpes* intended to prevent them from taking office and *contra-golpes* to guarantee that they did. These later became known collectively as the *Novembrada*.

The PSP, the PRP and the PDC were quick to recognise the legitimacy of the election in the interests of institutional continuity (and the expectation of jobs and favours). The UDN, however, for whom Kubitschek and Goulart, and especially Goulart, were seen as representing a return to the past, a continuation of *getulismo* by other means, immediately began to campaign against their inauguration on the (once again constitutionally flimsy) grounds that they had not secured an absolute majority in the elections as well as being guilty of fraud and of accepting Communist support. President Café Filho and the defeated UDN candidate Juarez Távora were hesitant, but Carlos Lacerda and the radical *udenistas* of the *Clube da Lanterna* began to take soundings among the military about a possible *golpe*. General Henrique Teixeira Lott, the Minister of War, however, continued to believe that discipline and unity in the armed forces, his principal priority, could only be maintained if the military remained apolitical. He dismissed generals who were both openly for and openly against the *posse* of Kubitschek and Goulart.

On 31 October General Canrobert Pereira da Costa, President of the *Clube Militar*, a prominent member of the Cruzada Democrática group within the military and a fierce opponent of *getulismo*, finally died. At his funeral the next day, 1 November, Colonel Jurandir Mamede, a member of the Escola Superior de Guerra (ESG) and one of the signatories of the February 1954 *Manifesto dos Coroneis* directed against Goulart when he was Vargas's Minister of Labour, gave a violent oration in which he condemned the 'vitoria da minoria [victory of the minority]', the '*mentira democrática* [democratic lie]', and openly advocated a *golpe*. Lott had no power to dismiss him. Only the Army Chief of Staff, or the President, could do so. The following day, 2 November, President Café Filho suffered a heart attack, and was granted temporary leave to undergo hospital treatment. In the event, he was unable to resume his duties. On 8 November, since there was no vice-president, the next in line of succession, the President of the Chamber of Deputies, Deputy Carlos Luz (PSD-MG), assumed presidential powers. Luz, a PSD dissident who had been elected with

UDN support, was a notorious adversary of Kubitschek and Goulart. He refused Lott's demand that Colonel Mamede should be punished for the politicisation of the military. Luz instead tried to replace Lott, who resigned feeling humiliated, only to change his mind when he received strong support from a group of generals led by Odílio Denys, commander of Vila Militar in Rio de Janeiro.

On 11 November Lott mobilised the troops loyal to him, occupied Rio, and as the head of a reconstituted *Movimento Militar Constitucionalista* deposed interim president Luz in a 'constitutional coup'. It was a pre-emptive or preventive coup, a *contra-golpe* against the *golpistas*, to ensure that Kubitschek and Goulart became president and vice-president on 31 January. Carlos Luz, his ministers, the heads of the *Casa Civil* and the *Casa Militar*, Colonel Mamede, and various politicians, notably Carlos Lacerda (who had famously announced in the *Tribuna da Imprensa*: '*Esses homens não podem tomar posse, não devem tomar posse, e não tomarão posse* [These men [Kubitschek and Goulart] cannot, must not, and will not take office]')¹³, took refuge on the cruiser *Tamandaré*, which sailed from Rio to Santos. The Air Force under Brigadier Eduardo Gomes gathered at Cumbica airport in São Paulo. Thus the Army was divided, and the majority of the Army was in conflict with the Navy and the Air Force. The governor of São Paulo, Jânio Quadro, considered offering political support to Luz and his supporters, which would have raised the possibility of civil war, but the military based in São Paulo and his *ademarista* and *juscelinista* opponents refused to back him. Indeed they threatened to depose him. Quadros quickly withdrew his support for Luz. Later that same day, against unrepentant UDN opposition, Congress confirmed as president the former vice-president, senator Nereu Ramos (PSD-Santa Catarina), who as vice-president of the Senate was next in the line of constitutional succession. Nereu had finally arrived at the presidential palace! He became Brazil's third president in ten days. And, in forming his own government, he retained Lott as Minister of War. The inauguration of Kubitschek and Goulart appeared to be guaranteed.

Ten days later, however, Café Filho informed Nereu and the presidents of both houses of Congress that he was capable of resuming office as president. It was expected that he would remove Lott and reopen the question of the legitimacy of the recent presidential elections. Lott, therefore, in

¹³ Quoted in Edward Anthony Riedinger, *Como se faz um presidente. A campanha de J. K.* (Rio de Janeiro, 1988), p. 279.

a second *contra-golpe* surrounded the Catete palace and Café Filho's residence in Copacabana with his troops, in effect placing the president under house arrest. After a lengthy constitutional debate Congress was persuaded to remove Café Filho and confirm Nereu Ramos in the presidency. At the request of the military ministers Congress also approved a thirty-day state of siege, the first under the 1946 Constitution, which at the end of December was extended for a further thirty days until the day of Kubitschek's inauguration, 31 January 1956. For the second time in less than eighteen months Brazil's postwar democracy had survived a threat from the political and military forces opposed to Getúlio Vargas and his legacy. There was, however, now a serious question as to which of the leading political actors was wholeheartedly committed to its survival.

THE KUBITSCHKEK ADMINISTRATION, 1956–1961

The administration of Juscelino Kubitschek (January 1956–January 1961) was the most successful of Brazil's postwar administrations. These golden years (*anos dourados*) of the postwar period witnessed rapid and sustained economic growth (8.1 percent per annum on average, 9.3 percent in the years 1957–1960), combined, however, with an utter disregard for macroeconomic constraints (inflation was almost 40 percent in 1959, the highest annual rate since the 1890s, and the public deficit more than 25 percent of total expenditure)¹⁴; the building of the new capital Brasília (one of the main reasons for the inflation and the deficit), officially inaugurated in April 1960; an intellectual and cultural renaissance (music, literature, cinema, theatre, art and architecture); the consolidation of democracy – and, not least, political stability. And all associated in the public mind with the 54-year-old president's own confidence, optimism, energy, love of life, love of Brazil. Juscelino Kubitschek was the archetypal Brazilian *homem cordial*.

Although elected, as we have seen, with a smaller proportion of the popular vote than any postwar president, Kubitschek did not have to face (or, insofar as he did, overcame) the problems of governability that bedevilled the administrations of his immediate predecessors, Getúlio Vargas and João Café Filho, or his immediate successors, Jânio Quadros and João Goulart. He started out with, and retained, the solid support of the PSD, the PTB and some of the smaller parties like the PR and the

¹⁴ On the economy during the Kubitschek administration, see Chapter 5 in this volume.

PSB and, partly as a consequence of his personal consensus-building skills, his '*vocação conciliadora*', he secured for the most part the support of the UDN and the PSP which were formally in opposition. Of course, it helped that he was a conservative moderniser who had little interest in social reform. His first *novembrista* cabinet consisted of four ministers from the PSD, including José Maria Alkmin, Kubitschek's friend since adolescence, as Minister of Finance, José Carlos de Macedo Soares (Foreign Relations) and Nereu Ramos (Justice) and two from the PTB (Labour and Agriculture), but also one from the PSP (Health) and one from the PR (Education), though none from the UDN. Lucas Lopes, who had held key technical advisory positions in both the Kubitschek governorship in Minas Gerais and in the second Vargas presidency and whom Café Filho had made Minister of Transport and Public Works at Kubitschek's suggestion, was put in charge of a Council for National Development responsible for implementing the administration's *Programa de Metas* (Targets' Plan) for economic development through industrialisation and achieving its primary goal of 'fifty years' development in five'.

In the Chamber of Deputies elected in October 1954 Kubitschek inherited the PSD/ PTB majority which sustained him throughout the first three years of his administration. The so-called *ala moça*, the progressive wing of the PSD, initially formed by nine young federal deputies, including Ulysses Guimarães (São Paulo) who would later become President of the Chamber, was particularly supportive. The UDN was ambiguous: the so-called *banda de música* faction on the right had a deep-rooted suspicion of the PSD/PTB alliance, which was the legacy of Vargas, had attempted to prevent the posse of Kubitschek and Goulart, and was opposed the Kubitschek's policies for state-led economic development and industrialisation, which among other things, in their view, could only increase the level of corruption in the country. On the other hand, the so-called *chapa branca* faction, which was more progressive and more pragmatic, had done deals with Vargas and were willing to do the same with his successor. Kubitschek was fortunate in having to deal with two successive 'realist' presidents of the UDN in the late 1950s, Senator Juraci Magalhães (Bahia) and Senator José de Magalhães Pinto (Minas Gerais), both later governors of their states.

The social pressures experienced by Vargas (and later, in a more extreme form, by Goulart) were somewhat mitigated by rapid economic growth during the Kubitschek administration. And, despite the difficulties he had in reaching the presidency, and the continued opposition of many in the Army and more particularly in the Navy and Air Force, Kubitschek

faced little overt opposition from the military. Here the role of General Henrique Teixeira Lott, who had been largely instrumental in guaranteeing his *posse* and whom he immediately appointed Minister of War, was critical. Lott served as War Minister throughout the five years of the Kubitschek administration, as did Odílio Denys as commander of the first Military Region (Rio de Janeiro) and the Vila Militar in the capital. Lott maintained discipline in the armed forces, even though many senior officers distrusted him as a *getulista* (and *golpista*), and kept them out of politics. Government candidates won the elections for leadership of the *Clube Militar* in 1956, 1958 and 1960. For his part Kubitschek made it easier for him by considerably increasing expenditure on the military. Significantly, despite the endless plotting of Carlos Lacerda, there were only two minor military rebellions – by Air Force officers in February 1956 and again in December 1959 – during the entire Kubitschek administration.

The elections held 3 October 1958 for the Chamber of Deputies and one-third of the Senate produced virtually no change in the balance of power between the major parties in Congress, although the PTB again saw a slight increase in the number of its deputies in the Chamber (from fifty-six to sixty-six). See Tables 2.1 and 2.2 above, p. 97. Of the eleven state governorships up for election in 1958 the PTB, however, which had until then only ever won one state (in 1947), won five, including Rio Grande do Sul (Leonel Brizola) and Rio de Janeiro (Roberto da Silva). In a revival of the Frente Popular of 1950, PTB candidates were backed by the PSP in return for PTB support for Ademar de Barros in São Paulo. After fleeing first to Paraguay, then to Bolivia, to avoid charges of corruption during his administration of the state of São Paulo in 1947–1950, Ademar had been elected mayor of the city of São Paulo in 1957. He now failed, however, in his attempt to become governor for a second time in 1958, losing to Jânio Quadros's state Secretary of Finance, Carlos Alberto Carvalho Pinto.

Kubitschek had to work harder for his Congressional majorities in the final two years of his administration. Its successes in the elections for the Senate and state governorships encouraged the UDN to be somewhat bolder in its opposition. At the same time, the PTB, which had seen the greatest gains in the October 1958 elections, found that it was its Left wing that had been strengthened most. A recently formed cross-party, though PTB-led group, the Frente Parlamentar Nacionalista, saw its informal membership increase for the first time to more than 100 deputies. Even so, the president's majority in Congress was never seriously threatened. More challenging was the threat posed by Leonel Brizola, Vice-President Goulart's brother-in-law.

Brizola had been PTB state deputy, federal deputy and mayor of Porto Alegre and was now governor of Rio Grande do Sul. His nationalisation of the state's private electricity company affiliated to the transnational Bond & Share and the expropriation of a state telephone company owned by ITT presented Kubitschek with serious problems in his final two years.

The Presidential Election of October 1960

An early runner in the race to succeed Kubitschek as president in January 1961 was Jânio Quadros. Born in Campo Grande, Mato Grosso (now Mato Grosso do Sul) in 1917, Quadros and his family moved to São Paulo in 1930 when he was thirteen and he became to all intents and purposes a *paulista*. After studying law at the University of São Paulo, he became a secondary school teacher of Geography and Portuguese. His meteoric political career began when he stood for *vereador* in the municipal council of São Paulo as a candidate of the PDC in November 1947 at the age of thirty. He was elected *suplente*, but was lucky: following the illegalisation of the PCB four of its seats on São Paulo council were allocated to the PDC, and one of them fell to Jânio. In October 1950, after only three years as *vereador*, he was elected state deputy, with the most votes of any candidate. And in March 1953, the candidate of the PDC, PSB and dissident elements in the PTB, he won a famous victory against the candidate backed by all three major parties to become mayor of São Paulo (as described earlier). Finally, in October 1954, after only eight years in politics and eighteen months as mayor, Quadros was elected governor of the state, again without the formal support of any of the three major parties. In these two elections Quadros, *o fenômeno*, as the press magnate Assis Chateaubriand now referred to him, who had never had the full support of organised urban labour, had successfully mobilised the poor of the peripheries of São Paulo and other major cities. *Janismo* was Brazil's first taste of *mass* populism based on the support of the urban poor for a charismatic politician with a strong ethical (anticorruption) as well as antielite message. Quadros defeated his main rival for the popular vote, Ademar de Barros (PSP), though only narrowly, 660,000 votes to 642,000. Ademar's electoral support was mainly the result of the liberal use of public funds: he was not ashamed to campaign on the slogan *ele rouba mas faz* (he steals but gets things done).

After three electoral victories in five years in the most important state of Brazil and having proved himself an excellent mayor and a good governor, despite having only minority support in both the municipal council and

the state assembly, Quadros was considered by some a possible presidential candidate in 1955 (*the 'JK de São Paulo'*). In October 1958 at the end of his term as governor he was elected federal deputy for the PTB in Paraná (again with the most votes of any deputy) – without ever visiting the state. Quadros immediately began to think about running for president in October 1960. Three small parties selected him as their candidate at an early stage: the PTN in April, the PL in July, and the PDC (against strong internal opposition) in October 1959.

By this time the UDN leadership, including Carlos Lacerda and Magalhães Pinto, was showing interest in Quadros as a potential candidate for president. He was not a member of the party, of course. He had in fact defeated UDN candidates for *prefeito* in 1953 and governor in 1954 in São Paulo. But as a young lawyer he had been a founder member of the UDN in São Paulo at the end of the Estado Novo before switching to the PDC (regarded at the time as '*a UDN católica*') and in every presidential election he had backed the UDN candidate – Gomes in 1945 and 1950 and Juarez Távora in 1955. For the leaders of the UDN, Quadros had proven ability, at least in São Paulo, to capture a huge popular vote, and therefore offered them a rare opportunity to beat the PSD and PTB after the party's '*derrotas gloriosas* [glorious defeats]' of 1945, 1950 and 1955 with unpopular military candidates. Jânio was a populist and progressive, the UDN antipopulist and conservative, but both were anti-*getulista* and, rhetorically at least, anticorruption. And Lacerda's reasoning, as he later explained, was that '*O Jânio ganharia de qualquer maneira. Ou ganhava conosco ou ganhava com o PTB* [Jânio will win anyway, either with us or with the PTB]'. (In fact Jânio's flirtation with the UDN was already too much for the PTB, his own party at the time, which refused to back him for the presidency.)

Lacerda had some stiff opposition to overcome at the UDN National Convention in December before Quadros finally became the UDN and therefore the 'official' opposition candidate, particularly from Juraci Magalhães, governor of Bahia, the party's national president and until then favourite to become the party's candidate. (Juraci would have been the third *ex-tenente* in succession, after Gomes and Távora, to fight a presidential election on behalf of the UDN.) Jânio twice withdrew his name during the process – first over internal opposition to his candidacy and demands for ministerial posts in his government and then over the choice of vice-presidential candidate (he was finally prevailed upon to accept Milton Campos, the party's defeated vice-presidential candidate in 1955).

These *renúncias*, later seen as presaging his final and most famous *renúncia*, drove Lacerda to apoplectic and prophetic denunciations of his man: ‘*esse palhaço, esse charlatão, esse mentiroso . . . Vou acabar com esse mito . . . Não podemos botar um impostor na Presidência da República. Se ele começa assim, imagina como vai acabar* [this buffoon, this charlatan, this liar. I am going to destroy the myth . . . We can’t make such an imposter President of the Republic. If he starts this way, imagine how he will finish]’.¹⁵ Jânio’s own father, with whom he had an extremely complex relationship, warned in the press that because of his son’s emotional instability, authoritarian nature and ‘*vocação para caudilho*’, Jânio would be a danger to Brazilian democracy. Nevertheless, with the late adherence of the PR Jânio became the candidate of a UDN/PTN/PDC/PL/PR Centre-Right coalition, his earlier radical populism apparently abandoned.

As for the PSD, various names were vetoed by Kubitschek who was primarily concerned with preparing the ground for his own reelection in 1965. He did not think that a third PSD candidate in succession could be elected and he had no interest in having one elected. On a higher plane, in the interests of alternation of power and consolidation of democracy he thought it was time for a UDN candidate to win – provided it was not Lacerda. He personally leaned towards supporting Juraci Magalhães for the presidency. The National Convention of the PSD in December 1959 selected Kubitschek’s Minister of War, General Henrique Teixeira Lott, as its candidate. Within the military Lott was a legalist and constitutionalist but also a *golpista* or rather *contragolpista* (as his role in the *Novembrada* had demonstrated), politically neutral though known to be anti-Communist, at the same time nationalist and developmentalist – and popular. He was strongly backed by the PSD’s *ala moça* which in Congress often voted with the PTB. The party’s so-called *raposas* (foxes), though not all (for example, former interim president Carlos Luz in Minas Gerais was strongly opposed), accepted Lott’s nomination. Kubitschek, always lukewarm, offered only his formal support, in effect ‘cristianising’ him.

The PTB was divided over the presidency. Governors Brizola in Rio Grande do Sul and Silveira in Rio de Janeiro favoured an independent PTB candidate. The nationalists supported Lott in order to keep intact the PSD/PTB coalition which had won in 1955. They were also attracted by the idea of uniting *soldados e o povo* (soldiers and people), the Armed

¹⁵ Quoted in Ricardo Arnt, *Jânio Quadros. O prometeu de Vila Maria* (Rio de Janeiro, 2004), p. 127.

Forces allied with the unionised workers, *tropa e sindicatos* (troops and unions), a programme of *emancipação nacional* (national emancipation) and *bem estar do povo brasileiro* (the well-being of the Brazilian people). The National Convention of the PTB in February 1960 voted for an alliance with Lott and the PSD, with Vice-President João Goulart once again the PSD/PTB vice-presidential candidate. Some in the PTB, however, felt closer to Quadros than to Lott. Hence the *Movimento Jan-Jan* (Jânio-Jango) which gained ground in São Paulo, Pernambuco, Paraná and other states – a movement that neither Quadros, betraying his own running mate Milton Campos, nor for that matter Goulart, did anything to discourage. Fernando Ferrari, the most popular PTB deputy in 1958, who had become increasingly frustrated with the national leadership of the party and was in open competition with Brizola in Rio Grande do Sul, had broken away to form his own *Movimento Trabalhista Renovador* (MTR) and supported Jânio for president. At the same time he offered himself as an independent candidate for vice-president. Ademar de Barros, the ‘eternal candidate’, was once again the PSP’s candidate for president. And Goulart, officially Lott’s running mate, courted Ademar as well as Jânio. Ademar–Jango committees were established to further confuse the political scene.

Jânio Quadros’s campaign for president was remarkable, even by his own standards, for its ideological confusion. A contradictory and enigmatic personality, Quadros was supported by many *empresários*, especially those linked to foreign capital, the urban middle class that voted UDN, a large part of the military high command and officers attached to the Escola Superior de Guerra (ESG), but also by the 160 *sindicatos* affiliated to the Movimento Renovação Sindical, and the people more generally to whom he offered (for example, in his speech to a crowd of 100,000 in Recife in September) nationalist–populist *reformas de base*, including the extension of social legislation to rural workers, and a nationalist foreign policy which included support for the Cuban Revolution. The Brazilian Left was both for and against Quadros. Francisco Julião, the PSB leader of the Ligas Camponesas (see p. 145) came out for Jânio, Luís Carlos Prestes, the leader of the illegal PCB, gave his support to Lott, an anti-Communist general.

On 3 October 1960 11.6 million Brazilian voted in the presidential elections. Quadros polled 5.6 million votes (48.3 percent of the valid votes, more than either Vargas or Kubitschek, but still not an absolute majority). On this occasion, however, the UDN failed to protest. Almost 80 percent of Quadros’s vote came from four states: Guanabara (the city of Rio de Janeiro,

which became a separate state when Brasília replaced it as the Federal District), Minas Gerais, Rio Grande do Sul and São Paulo (which alone accounted for 55 percent of his vote). Lott polled 3.8 million votes (33 percent), Ademar 2.2 million (19 percent). In the separate election for vice-president Goulart won for the second time, with 42 percent of the valid vote against Milton Campos's 39 percent (a difference of some 300,000 votes). Campos was therefore defeated for a second time. Fernando Ferrari (MTR) polled a remarkable 19 percent of the vote, winning more votes than Goulart in Rio Grande do Sul. But Ferrari died in a plane crash soon afterwards. His potential for further growth and national impact was never to be tested.

With Jânio's victory in the presidential race, the first time a candidate of the 'opposition' had won against the combined forces of the PSD and the PTB, vindicating Lacerda's initial judgement that the UDN should back him, and UDN victories in six of the eleven state governorships contested, including those of Lacerda himself in the new state of Guanabara, Magalhães Pinto in Minas Gerais and Ney Braga in Paraná, the UDN celebrated in October 1960 its only electoral success of the postwar period. And on 31 January 1961 Juscelino Kubitschek became the first democratically elected civilian president to serve a full term and to hand over power to a democratically elected civilian successor. The political crises of 1954 and 1955 could be forgotten. The prospects for democracy in Brazil, it seemed, had never looked better.

THE QUADROS ADMINISTRATION, JANUARY–AUGUST 1961

Jânio Quadros, a provincial *matogrossense* turned *paulista* outsider, had built a political career, which had taken him from municipal councilman in São Paulo to President of the Republic in fourteen years, on the margins of the party system, without an ideology, programme or even much of an organisation. He had to come to power without the support of the PSD or the PTB, and the support of the UDN was precarious and conditional. Yet almost six million Brazilians had voted for him. He had a mandate for change, although apart from cleaning up politics and government it was not clear what kind of change. He had raised great hopes for the future, but it was not clear what kind of future. And he found, he said, on arriving in Brasília, after his predecessor's attempt to achieve 'fifty years' development in five,' '*um caos econômico, um caos financeiro, um*

caos administrativo'.¹⁶ Governing Brazil was to present him with a major challenge that unfortunately he proved unable to meet.

Quadros had governed Brazil's biggest and richest city, São Paulo, and Brazil's biggest and richest state, the state of São Paulo, but he did not know Brazil well and had no experience of governing the country. Campaigns against corruption and dishonesty in public administration had worked in the city, even in the state of São Paulo, but the problem at the level of the federal bureaucracy proved much more complex, intractable – and frustrating.

In Congress, elected in 1958, the opposition to Quadros was solidly entrenched. Between them the PSD, the PTB and the PSP had more than 60 percent of the seats in both the Chamber of Deputies and the Senate. The only major party supporting him at the outset was the UDN, which had 20 percent of the Chamber and 28 percent of the Senate. And the UDN, which had become suspicious of him even before he was elected, was soon alienated. The honeymoon did not last long. The UDN backed his orthodox economic policies, including fiscal austerity and encouragement of inward foreign investment, his anticorruption measures and his early attempts to reduce the power of the labour unions. But it was uncomfortable with the more 'populist' or 'progressive' policies which included anti-trust legislation, controls on the remittances of profits abroad and, surprisingly, agrarian reform and even political reform to give illiterates the vote. The right wing of the UDN also strongly opposed Quadros' so-called independent, anti-imperialist Third World foreign policy which included restoring diplomatic relations with Soviet Union, establishing commercial relations with East Germany and the Eastern bloc and, above all, closer relations with Cuba. His award of the National Order of the Southern Cross to Che Guevara in a public ceremony in Brasília, in particular, inflamed his enemies in the UDN although, like his foreign policy in general, it found support among his opponents in the PTB.

And Jânio's style of politics (and administration), unlike Kubitschek's (who, of course, though lacking Jânio's popular mandate had the advantage of PSD and PTB support in Congress), was not conciliatory. He had no experience of national politics. As a federal deputy elected in 1958 he only attended Congress once – to take his seat! He was authoritarian and arrogant. He did not negotiate with, nor try to co-opt, his opponents. He

¹⁶ Arnt, *op. cit.* p. 145. On the economic legacy of Kubitschek, see Chapter 5 in this volume.

largely ignored the rules of the political game. He believed he could govern without Congress because '*o povo está comigo*' (the people are with me). Isolated in the new capital Brasília, working from 6.30 a.m. to 8 p.m., not sleeping well, and drinking too much, his failures made him irritable, impatient and depressed.

The Resignation of Quadros in August 1961 and Its Aftermath

In July, after less than six months in power, Quadros was already thinking of resigning – unless he could enhance his authority. He floated the idea of an 'institutional reform' by means of a constitutional amendment, to be approved by a referendum, which would reduce the powers of Congress and increase the powers of the president. It is not clear what exactly he had in mind. But he certainly intensified the hostility of Carlos Lacerda, now governor of Guanabara, and other UDN leaders, who claimed he was preparing a *golpe* to be followed by a dictatorship. Therefore, a *golpe* was required to prevent it. Lacerda instigated discussions with the military, but General Oswaldo Cordeiro de Farias, head of the Joint Chiefs of Staff, and the three military ministers General Odílio Denys (Minister of War, former commander of the First Army and an old ally of Lott), Admiral Sílvio Heck (Navy) and Brigadier Gabriel Grün Moss (Air Force), refused his invitation to intervene and form a military junta.

On 25 August 1961, after only six months and twenty-three days in power (and seven years almost to the day since the suicide of Getúlio Vargas), Jânio Quadros unexpectedly and dramatically resigned. And, ignoring appeals to reconsider from the military ministers and from Governors Carvalho Pinto (São Paulo) and Magalhães Pinto (Minas Gerais), he left Brasília for São Paulo, thence to Santos and, onboard the *Uruguay Star*, to London.

Quadros spent the rest of his life trying to explain why he resigned the presidency in August 1961 – without total success. The fullest and most convincing of his many accounts was that given just before he died in 1992, aged seventy-five, to his grandson (published in *Memorial a História do Brasil*, 1996, edited by Jânio Quadros Neto in association with Eduardo Gualazzi). In this he emphasised the difficult economic and financial situation he inherited from Kubitschek, persistent Congressional opposition to his proposed legislation, the *golpismo* of Lacerda and other leaders of the UDN and a variety of ill-defined terrible forces ('*forças ocultas*') determined to undermine and thwart his authority. His *renúncia*, he claimed, was planned: it was a political manoeuvre, a counter-attack

against the opposition in the interest of governability. The military, the state governors, big business, the ‘people’ simply would not accept his resignation, he believed, not least because vice-president João Goulart was unacceptable as his successor. (Had he deliberately planned for Goulart to be in Communist China of all places at the time of his *renúncia*?) Jânio had written his letter of resignation on 19 August and delivered it to the Minister of Justice on 22 August. He never imagined it would be accepted. He expected the military to assume power, immediately approve his proposed constitutional reform aimed at strengthening the powers of the president, and invite him back. Free of Congress and political parties he would return, in glory, ‘*nos braços do povo*’ like Getúlio in January 1951 – or de Gaulle in France in December 1958. But, though it had not opposed him while he was in power, the military lacked total confidence in him and his policies, especially his foreign policy, and failed to support him in his hour of need. Congress, where Jânio had by this time very few friends, moved quickly, as we will see, to ensure that he did not return. And no popular support materialised. The *povo* were shocked, perplexed, showing no understanding of his situation, extremely passive (*‘muito passivo’*). ‘*O povo, onde está o povo?* [The people, where are the people?]', Quadros exclaimed forlornly when he arrived from Brasília at Cumbica airport in São Paulo.

Lacerda took the view that the *renúncia* was entirely unnecessary. Quadros had all the conditions for government. He had come to power with popular and broad-based support, from both Right and Left. His problems were entirely of his own making: basically he lacked the political skills needed to carry out his programme which was in any case too vague. There was no conspiracy; he was not *golpeado* by the Right, military or civilian. On the contrary, he was attempting a *golpe* himself – which Lacerda was obliged to prevent! Like many others, including General Lott, Lacerda agreed that Quadros was intelligent, but unstable, neurotic, ‘*louco*’ (crazy). When Ranieri Mazzilli, who temporarily replaced him as president, asked General Denys why Quadros had resigned, Denys replied, after a long pause ‘*temperamento*’.¹⁷ If Jânio’s own explanation/rationale for his *renúncia* is accepted at face value, that is to say, that it was part of a deliberate political strategy, then his plans went wrong and he had miscalculated (sadly, because the consequences were profound). His resignation precipitated the most serious political–institutional crisis in Brazil since 1945 – more serious than the crises of 1954 and 1955. Indeed it brought

¹⁷ Arnt, *op. cit.* p. 189.

Brazil close to civil war, and in the longer term led to the military coup of 1964 and the establishment of a military dictatorship that lasted until 1985.

Minister of Justice Oscar Pedrosa D'Horta sent Jânio's *renúncia* to the President of the Senate, Auro de Moura Andrade, who immediately convoked an extraordinary joint session of Congress. In the absence of the vice-president abroad, to maintain legality and avoid any possibility of a *golpe*, Congress (with 230 deputies and 46 senators present) voted the President of the Chamber of Deputies, Ranieri Mazzilli (PSD–São Paulo), interim president. Mazzilli had been elected to the presidency of the Chamber earlier in the year with the support of conservative sectors of the PSD and the UDN. He was the seventh to hold the office of President of the Republic in the ten years since Getúlio Vargas took power in January 1951 – a telling indication of Brazil's political instability and the fragility of Brazilian democracy.

The Constitution was clear: in the event of the resignation of the president, the vice-president assumed the presidency. But, and in this at least Jânio had calculated correctly, the three military ministers, Denys, Heck and Grün Moss, were not prepared to accept João Goulart as president. His very name revived old fears that once in power he would promote an extreme form of *trabalhismo-nacionalismo*, attempt to set up a *república sindicalista*, as he was alleged to be planning during his period as Labour Minister in 1953–1954, or even worse play the role of a *Kerenski brasileiro*, taking Brazil down a road that would end in a Communist takeover. They took the opportunity presented by his absence abroad – Goulart was in Singapore on 25 August – to veto his return and inauguration as president, making it clear that if he did return he would be immediately imprisoned. The military high command then instituted what was in effect a state of siege, including censorship of the press, radio and television. General Lott, who had so decisively intervened on behalf of Kubitschek and Goulart in 1955, the defeated presidential candidate in 1960, a *legalista* general with immense prestige, was one of the first to speak out (on 26 August) against military intervention in the presidential succession. For this he was imprisoned by Denys in the Fortaleza de Lages. Nationalist officers in all three armed services, union leaders, and students in Rio de Janeiro, São Paulo and Recife were rounded up. Some of the worst excesses occurred in the city of Rio de Janeiro (now the state of Guanabara) where Governor Lacerda was – as always – a strong advocate of military intervention and repression of any opposition to it.

In Congress, however, not only the PTB but most of the PSD, and even some of Goulart's enemies, were in favour of his inauguration. Only the UDN was totally against. And outside Congress a coalition of forces, civil and military, emerged determined if possible to preserve Brazil's fragile democratic institutions. Porto Alegre became the centre of popular mobilisation against the military's veto of Goulart. The governor of Rio Grande do Sul, Leonel Brizola, Goulart's brother in law, who had offered support to Quadros, a political opponent, when he thought he was about to become the victim of a military coup, organised Comitês de Resistência Democrática and a national network of radio stations (*cadeia da legalidade*) against what amounted in his view to an attempted *golpe* by the military ministers. In the rest of the country progressive forces led by the PTB, the (illegal) Communist party and the *sindicatos* organised a Campanha da Legalidade against the military ultimatum. It was supported by the most important state governors and *prefeitos* (of all parties), professional associations, the União Nacional de Estudantes (UNE), intellectuals, and not least the Catholic Church in the person of Cardinal Dom Jaime Câmara, President of the Confederação Nacional dos Bispos Brasileiros (CNBB).

Within the military there also was strong opposition to the position taken by the three military ministers. Lott was not the only *constitutionalista*. In particular, General José Machado Lopes, commander of the Third Army based in Rio Grande do Sul, challenged the authority of the Minister of War by refusing to obey an order to bombard the governor's palace. General Denys on 30 August attempted to replace him with Cordeiro de Farias, but Lopes refused to stand down. With *governista* troops in Rio de Janeiro and São Paulo confronting *legalista* troops in Rio Grande do Sul, Santa Catarina and Paraná there was a real danger of civil war.

In this atmosphere of intense crisis, with the military ministers clearly lacking support for their position and even the UDN and the right wing of the PSD now seeking to avoid an institutional rupture, with the clear threat of a military dictatorship, the closure of Congress and the cancellation of elections, including the presidential elections in 1965 which both the PSD and the UDN had hopes of winning, a political solution to the impasse was found. There would be a change of regime. The leaders of the PSD and UDN in Congress supported a constitutional amendment proposed by Raul Pilla (PL-RGS), the historic defender of parliamentarism in Brazil, which would establish for the first time since the end of the Empire in 1889 a parliamentary system of government in Brazil. Goulart would assume the

presidency as the Constitution required, satisfying the demands for legality, legitimacy and continuity, but with his powers significantly reduced. He would govern through a Council of Ministers presided over by a Prime Minister confirmed by and accountable to a Congress dominated (at least until the end of 1962) by the combined conservative forces of the PSD and UDN. For the PSD, which was bound to play a major role in any parliamentary government, it was an opportunity to recover the influence it had briefly lost under the administration of Jânio Quadros. The change of regime was not necessarily permanent. The parliamentary system would be put to a referendum in April 1965 nine months before the end of Goulart's mandate (six months before the next scheduled presidential elections). Nevertheless, the PTB, and especially the Left of the party, strongly opposed the change of rules in the middle of the game. They insisted to the end that Goulart should become president with all the powers the Constitution allowed. But Oswaldo Cordeiro de Farias, the Armed Forces' Chief of Staff, and the troika of *golpista* military ministers accepted the decision of the majority in Congress.

Goulart meanwhile had moved to Paris. From there he travelled to New York, then Miami, Buenos Aires via Panama and Lima, and finally Montevideo. On 1 September interim president Mazzilli sent a leading member of the PSD, Tancredo Neves, who had served as Vargas's Minister of Justice in 1953–1954, to talk to Goulart in Montevideo. Goulart had no choice but to accept the new rules of the game if he was to become president and at the same time avoid possible civil war in Brazil. On 2 September a constitutional amendment establishing a parliamentary system was approved in the Chamber of Deputies, first by 234 votes to 59, then 233 to 55, and in the Senate, 47 to five and 48 to six. Goulart returned to Brazil, first to Porto Alegre (where Brizola continued to argue against accepting such severe restrictions on his powers as president), then to Brasília. He was inaugurated as president on 7 September, Brazilian Independence Day.

Another crisis had been averted. As in 1954 and 1955 *golpe*, dictatorship and civil war had all been avoided. The president under the Constitution, João Goulart, after a delay of two weeks, had finally assumed office, but only after a change of regime – the imposition of a parliamentary regime severely restricting the powers of the president. There had been in effect, as the leaders of the PTB insisted, a semi-*golpe*. For Almino Affonso, radical PTB federal deputy for Amazonas, parliamentarism was a '*golpe branco das forças reacionárias . . . o mesmo golpe, em termos civis, que os militares tentaram*

dar [a soft coup by the forces of reaction . . . the same coup in civilian guise that the military tried to carry out].¹⁸ Those in the military who favoured an outright coup had once again failed. The political elites had once again resolved a political crisis and maintained a semblance of ‘democratic’ legality – but only by bowing to military and conservative civilian pressure, frustrating the expectations of, and therefore further radicalising, those left-nationalist groups who hoped for socioeconomic change under a Goulart administration, and making more difficult the effective government of Brazil.

THE GOULART ADMINISTRATION, 1961–1964

João Goulart’s principal objective during his first year in office was the early restoration in full of his presidential powers – in his own interests, because he was a strong believer in presidentialism, and also because it was a *sine qua non* for the implementation of the basic social reform agenda to which he subscribed, or to which he at least paid lipservice. In his acceptance speech on his inauguration he appealed for an *immediate* judgement by the people on the return to a presidential system of government (otherwise not due until April 1965). In the meantime, he had to work within the new and ill-defined parliamentary system of government imposed on him by the military and politicians of the Centre-Right for whom he remained very much on probation.

The day after his inauguration a large majority in the Chamber of Deputies approved his choice of Tancredo Neves as President of the Council of Ministers, Brazil’s first ‘Prime Minister’ since the fall of the Empire in November 1889. Neves had hesitated before accepting the post because he had no parliamentary mandate at the time. A former PSD federal deputy 1951–1954 he had not sought reelection in 1954 or 1958, preferring to contest the governorship of Minas Gerais in 1960 (which he lost). But he had the support of the PSD, the majority party in Congress, and was acceptable to large sections of the UDN and even to some PTB deputies. And he had the confidence of the president, for whom the Chamber’s choice of Prime Minister could have been much worse. Tancredo appointed a government of national union consisting of five PSD ministers, including the rising star of the party, Ulysses Guimarães (Industry and Commerce), two from the

¹⁸ Quoted in Amir Labaki, 1961. *A crise da renúncia e a solução parlamentarista* (São Paulo, 1986), p. 115.

PTB, including Francisco de San Tiago Dantas (Foreign Relations), and one each from the UDN and the PDC. The banker Walter Moreira Salles was appointed Finance Minister. General João de Segadas Viana became Minister of War and General Amaury Kruel head of the Casa Militar.

During the first half of 1962 it emerged that there was in fact a surprisingly strong coalition, inside and outside Congress, in favour of an early plebiscite on a possible return to presidentialism. UDN state governors Magalhães Pinto (Minas Gerais), Juraci Magalhães (Bahia), and even Carlos Lacerda (Guanabara), Goulart's most dedicated enemy, were fearful that the new system might eventually be extended from the federal to the state level but, more important, they all had ambitions to become president themselves in January 1966 (as did former president Juscelino Kubitschek, who was expected to be the candidate of the PSD). At a conference in June 1962 the state governors as a body formally voted in favour of bringing forward the date of the plebiscite. In Congress not only the PTB but many in the PSD and even the UDN supported a rejection of the parliamentary system which was clearly not popular: polls indicated that 72 percent of Brazilians favoured an immediate return to the presidential system.¹⁹ Some PSD and UDN deputies even feared they might be punished in the October Congressional elections if they persisted in resisting it.

On 26 June 1962 Tancredo Neves resigned as Prime Minister, after nine and a half months in the post, in order to run for federal deputy in October. Goulart's candidate to replace him was Foreign Minister San Tiago Dantas, a progressive intellectual and federal deputy (PTB-MG), more on the Left in foreign policy – he was the father of *política externa independente* and, for example, pursued a policy of neutrality on Cuba – than in domestic policies. He had the backing of the PTB, but only the more progressive elements in the PSD and UDN, the *ala moça* and *bossa nova*, respectively, gave him their support. He was rejected by 174 votes to 110. Instead, on 2 July, the Chamber approved, by a huge majority, the president of the Senate Auro de Moura Andrade (PSD–SP) as Neves' successor. Andrade had hardly reached his office, however, before being forced to resign by a general strike in protest against the government's unpopular anti-inflation measures organised by the Comando Geral de Greve, a precursor of the Comando Geral dos Trabalhadores (CGT) which was formed – strictly speaking illegally – later that month and immediately called for a general

¹⁹ Argelina Cheibub Figueiredo, *Democracia ou reformas? Alternativas democráticas à crise política: 1961–1964* (São Paulo, 1993), p. 59, n. 13.

strike in favour of a plebiscite on the political system and basic social reforms. On 7 July Francisco de Paula Brochado da Rocha, a lawyer and a PSD deputy for Rio Grande do Sul, who also had the support of the PTB (he had been Brizola's state Secretary of Justice) and sections of the UDN, became prime minister.

Three prime ministers in two weeks and continued labour unrest – a series of strikes in Rio de Janeiro, Recife, Porto Alegre and Santos, some of them violent – provided Goulart with an unexpected new ally in his struggle for an early plebiscite on parliamentarism versus presidentialism: the military. On 12 September the Commander of the Third Army, General Jaír Dantas Ribeiro, told the Minister of War that he could not keep order within his own troops if the plebiscite were not brought forward and a programme of basic social reforms initiated. Two days later Congress, the opposition finally worn down, passed the necessary legislation for a plebiscite to be held on 6 January 1963 (more than two years ahead of schedule). The law had the support of the PTB and the smaller parties of the Centre-Left, three quarters of the PSD and one-third of the UDN. One quarter of the PSD and two-thirds of the UDN opposed it to the bitter end. On 18 September Hermes Lima, a founder of the Partido Socialista Brasileira in 1947 who had served as head of Goulart's Casa Civil until July, became Brazil's fourth prime minister, appointed to see Brazil through to the plebiscite and the expected return to a presidential system after the experiment with parliamentary government which had lasted little more than a year.

Even before the plebiscite was held Goulart's political position, and therefore the prospects for reform, were considerably strengthened by the success of the PTB in the Congressional elections of October 1962. As a result of population growth, urbanisation and some improvement in literacy rates the Brazilian electorate had reached 18.5 million (almost three times larger than the electorate in December 1945 at the time of Brazil's first 'democratic' elections). 14.7 million voters went to the polls in 1962. And the PTB increased its representation in the Chamber of Deputies from 66 to 116, replacing the UDN as the second largest party in the Chamber, and with only two fewer deputies than the PSD which had dominated every Chamber since 1945. See Table 2.1, p. 97. The Chamber had been enlarged from 326 to 409 deputies and therefore the number of seats is less significant than the percentage of seats won by each party. The PSD's share of seats fell from 35 percent in 1958 to 29 percent; the UDN's share remained steady at 22 percent; the PTB's share rose from 20 percent

to 28 percent. Also significant was the fact that the smaller parties of the Centre-Right/Right (PR-PSP-PRP-PL) saw their combined representation in Congress fall from 19 percent in 1954 and 15 percent in 1958 to 9 percent, while the smaller parties of the Centre-Left/Left (PDC-PSB-PTN-PRT-PST-MRT) increased their combined representation from 4 percent in 1954 and 8 percent in 1958 to 12 percent in 1962.²⁰ The elections for the Senate, in which the PSD won sixteen of the forty-five seats (two-thirds) contested, produced less dramatic change, although with the PTB taking twelve and the UDN only eight the PTB now had more seats than the UDN in the Senate as well as the Chamber. See Table 2.2, p. 97.

Eleven state governors (and state assemblies) were also elected in October 1962. The election in São Paulo was by far the most important and produced the most surprising result. Ademar de Barros (PSP) won, but by only 120,000 votes (1.25 million to 1.13 million) over former president Jânio Quadros. Jânio, who had said on his resignation in August 1961 '*não farei nada por voltar, mas considero minha volta inevitável* [I will do nothing to return, but I consider my return inevitable]', had returned to Brazil in March 1962, after six months travelling the world, to attempt a political come back. He fought the election as the candidate of the small Partido Trabalhista Nacional (PTN). (The PDC had refused to nominate him, and the outgoing governor Carlos Alberto Carvalho Pinto, his own creation, refused to give him his support.) Jânio suffered his first ever electoral defeat, but it was a narrow defeat and he won in the capital, in Santos and in many other big cities. Despite everything that had happened, Jânio was still a force in Brazilian politics. In other important state elections Badger Silveira of the PTB took Rio de Janeiro and Miguel Arraes, the candidate of the small Partido Social Trabalhista (PST), formerly the Partido Proletário de Brasil created in 1946 by dissidents from the PTB and PSD, won in Pernambuco. But in Rio Grande do Sul, where Leonel Brizol had been governor for the previous four years, Ildo Meneghetti (UDN/ PSD), defeated the candidate of the PTB.

Three months later, on 6 January 1963, 12.3 million Brazilians voted in the plebiscite. 9.5 million (nearly three times the votes that Goulart had received as candidate for vice-president in 1960) voted for the abolition of the constitutional amendment by which the military, the UDN and sections of the PSD had imposed a parliamentary system on Brazil in September 1961 and 2.1 million voted for the status quo, with 500,000 voting

²⁰ See Figueiredo, op. cit., p. 129, table 3.

nulo and 300,000 *em branco*. It was an overwhelming victory for João Goulart. On 24 January 1963 he assumed full presidential powers. And Brazil entered a period of almost permanent political crisis until he was overthrown by a military coup less than fifteen months later.

Goulart believed that his election in October 1960 (albeit as vice-president, not president), the popular mobilisation in favour of his *posse* in August–September 1961, the results of both the Congressional elections in October 1962 and the plebiscite in January 1963 had given him a decisive mandate for change. An *estanciero* in Rio Grande do Sul who had made a political–bureaucratic career in the PTB as a protégé of Getúlio Vargas, he was not, however, as some in the military and on the political Right believed or feared, a man of the revolutionary Left, nor even a radical left nationalist (except in the sense that the privileged classes in Brazil saw any programme for even moderate economic and social change as radical). He regarded himself as moderately reformist, not so much anticapitalist as a moderniser of Brazil's capitalist economy and society. On the economy, he supported state-led development and defended Brazilian sovereignty over its natural resources and the national ownership of Brazil's basic industries and infrastructure and, in particular, the extension of Petrobras's monopoly of oil. While, like Vargas and Kubitschek, not against foreign investment in the Brazilian economy, he favoured a limit on the remittances of profits abroad by foreign enterprises.

Goulart, however, also subscribed to what had become by the early 1960s an agenda for basic social reforms (*reformas de base*) which went far beyond Vargas's social welfarism (for unionised urban workers). This basic reform agenda might be said to include the following elements: a significant improvement in the conditions of life and work of urban workers, non-unionised as well as unionised; political reform, including the extension of the suffrage to soldiers and sailors and, most important, to illiterates (predominantly rural), and the legalisation of the Brazilian Communist party (PCB); the extension of existing labour and social welfare legislation to rural workers; and finally, and most controversially, agrarian reform: the redistribution of unproductive land with compensation in government bonds rather than cash (which would require a constitutional amendment).

The rights of rural workers and agrarian reform had hardly figured as an issue in Brazilian politics until the late 1950s, except in the programme of the PCB. (In fact, it was a fundamental part of Vargas's '*pacto de compromisso*' with the Brazilian landed class that they would not, though in his speech of 1 May 1954 Vargas had raised the issue of the extension of

existing labour legislation to rural workers.) They forced their way onto the political agenda towards the end of the Kubitschek administration and during the administrations of Quadros and more particularly Goulart – and became, more even than the issue of foreign capital, the principal divide between Left and Right – as a consequence of the first stirrings at this time of popular political mobilisation in the Brazilian countryside among the ‘forgotten half’ of Brazil’s population. (In 1960 55 percent of economically active Brazilians were still engaged in agriculture, cattle raising and rural industries.)

The movement of so-called *Ligas Camponesas* (Peasant Leagues) that spread rapidly throughout the Northeast, Brazil’s poorest region, indeed one of the poorest regions of South America, in the late 1950s and early 1960s traced its origins to conflicts on the Engenho Galiléia in Pernambuco, 50 kilometres from Recife, in 1954–1955. It came to be led by Francisco Julião, a middle-class lawyer and member of the Partido Socialista Brasileiro (PSB) who was elected federal deputy for Pernambuco in 1954 and 1958. The *Ligas* were organisations of subsistence peasants, sharecroppers and small tenant farmers who were resisting eviction (and therefore proletarianisation) resulting from land concentration (in a country with an already excessively high level of concentration) and agricultural ‘modernisation’ and also asserting their civil and political rights. At the same time, the Catholic Church-sponsored *Movimento de Educação de Base* (MEB), founded 1961, mounted a rural literacy programme which emphasised *conscientização* (political awareness). By 1962 some 200,000–250,000 *campesinos* had been mobilised: there were 35,000 activists in 65 *Ligas* in Pernambuco alone. And there were land conflicts not only in Pernambuco but also, for example, in Paraná, Goiás, Mato Grosso and Maranhão. Julião visited Cuba in May 1961 (and again in February 1963). By this time, however, the *Ligas* were somewhat in decline and had been overtaken in importance by rural unions which were being organised by the Communists and progressive Catholic priests. There was some overlap between the two social movements, but the unions primarily mobilised semipeasants and agricultural wage labourers, that is to say, the rural proletariat, especially on the capital-intensive sugar estates. And their demands concentrated on wages, conditions of work, the extension of existing labour and social legislation to rural Brazil – and radical agrarian reform.

João Goulart was an ‘accidental president’, with no previous experience of high executive office. He had served as state deputy and federal deputy but never as state governor. His only ministerial experience had been as

Vargas's Minister of Labour for less than a year in 1953–1954. He had served as vice-president under two successive presidents, Juscelino Kubitschek and Jânio Quadros, from January 1956 to August 1961, but as president only since September 1961 (and under the constraint of a parliamentary system of government). And he was not known for his political skills. A somewhat weak and indecisive person, though not unsympathetic, he had, Brizola once said, a 'horror of power (*horror de poder*)'. Lincoln Gordon, the U.S. ambassador at the time, later described him as extremely pleasant, tolerant, a man with few personal enemies – but totally unqualified to be president.²¹

Goulart's principal political base was organised labour linked to the PTB, together with the so-called national bourgeoisie and nationalist elements in the military. There was now the possibility of extending his base to include peasants and rural workers. He had already made a point of attending, along with Prime Minister Tancredo Neves, the closing session of the First National Congress of Peasants and Agricultural Rural Workers which was held in Belo Horizonte in November 1961 and which attracted 6,000 delegates. And in October 1962 he had established a Superintendency of Agrarian Policy (SUPRA), a state agency for the distribution of land and the implementation of rural social policies, and a National Commission for Rural Unionisation to facilitate and coordinate the formation of rural unions. The Ligas were too independent. Rural unions and therefore rural labour, like urban labour, could be brought under the control of the Ministry of Labour and its hierarchical corporate structure through the requirement for legal registration, providing the government with enormous possibilities for political mobilisation. In March 1963 Goulart's Minister of Labour, Afonso Almino, introduced into Congress a proposal for a Rural Workers Statute, aimed at extending the main features of the 1943 Labour Code (the *carteira do trabalho*, regulation of hours of work, holidays with pay, minimum wage, etc.) to previously unprotected rural workers.

Goulart, however, lacked a strong base in Congress. Without it the passage of basic reform legislation, especially that needing a constitutional amendment and therefore a two-thirds majority, was impossible. The October 1962 elections had strengthened the PTB, and after a certain amount of party-switching it had become the largest party in the Chamber of Deputies (with 27 percent of the seats). With the smaller parties of Centre-Left/Left, which had also made gains in October, as we have seen, and the support of some reform-minded deputies in the PSD (and even the UDN) who

²¹ 'Um olhar americano', interview with Lincoln Gordon, *Época*, 25 December 2000.

formed part of the cross-party Frente Parlamentar Nacionalista (FPN), Goulart could count on perhaps 40 percent of the deputies to support his reforms. However, although the two 'conservative' parties in Congress, the PSD and the UDN, had lost the total hegemony they had exercised for the previous fifteen years, they still had more than 50 percent of the seats, and with the smaller parties on the Centre-Right/Right close to 60 percent. The UDN had always had a deep distrust of Goulart and was never going to support his government. The PSD had a basic *vocação governista* and was usually willing to do deals, but not on agrarian reform or votes for illiterates. These reforms posed a direct threat to the PSD's rural base. The PSD and the UDN working together had what amounted to a permanent veto on reform. And the more conservative deputies of both parties were now more closely linked through their own cross-party block, the Ação Democrática Parlamentar (ADP), formed in May 1961 in response to the growing influence of the FPN.

Goulart also had a weak regional political base. The governors of the big-three states were all fierce opponents: Ademar de Barros (PSP) in São Paulo, José de Magalhães Pinto (UDN) in Minas Gerais and Carlos Lacerda (UDN) in Guanabara. Even Rio Grande do Sul was in the hands of the opposition: Ildo Meneghetti (UDN/PSD). Goulart could count only on Badger Silveira (PTB) in the state of Rio de Janeiro and Miguel Arraes (PST) in Pernambuco. As for the military, Goulart had made his own appointments to some key positions, notably General Jaír Dantas Ribeiro as Minister of War, and he had retained General Amaury Kruel in command of the crucial Second Army based in São Paulo. But Goulart was never totally confident of the military's support. It had allowed him to resume full presidential powers in January 1963, but he was all too aware that it had forced him out of the Ministry of Labour in February 1954 and only narrowly failed to prevent him taking power as vice-president in January 1956 and as president in August–September 1961.

In these circumstances Goulart's personality and political instincts inclined him towards a *política da conciliação*, an attempt to negotiate with the Centre-Right, especially the PSD, in Congress and move a moderate reform agenda forward gradually by stages. Each time, however, he was rebuffed. Three attempts between April and October to pass a constitutional amendment to facilitate a modest land reform were defeated by almost the entire body of UDN and a majority of PSD deputies. The Rural Workers Statute he had introduced in March was rejected by the Chamber in August. These failures came at a high political cost since they served

only to radicalise many of Goulart's own supporters in Congress (and in his government). Until Goulart's presidential powers had been restored the so-called radical *ideológicos* (as compared with the more moderate and pragmatic *fisiológicos*) in the PTB had maintained a relatively low profile. In 1963, however, the more radical elements, the Grupo Compacto, which had been moving steadily to the Left, became the dominant faction of an increasingly fragmented in the party. The leading figures were Almino Afonso, Goulart's Minister of Labour until he left the government in June, and above all the president's brother-in-law Leonel Brizola, former governor of Rio Grande do Sul who in October as the candidate of the Aliança Social Trabalhista (PTB/PSD) had been elected federal deputy in Guanabara with 270,000 votes, at the time the largest vote ever secured by a federal deputy.

This 'nationalist-left' in the PTB was ready to adopt a strategy of trying to overcome the impasse in Congress by taking the struggle for reform, and reform more radical than that proposed by Goulart, outside Congress where there was already, by Brazilian standards, an unusually high degree of popular politicisation and mobilisation. The Comando Geral dos Trabalhadores (CGT), for example, formed in July 1962, had already shown itself to be capable of organising general strikes with strong political overtones. (Operating outside the corporatist state-controlled union structure and the CLT, it was strictly speaking illegal, but the Goulart government turned a blind eye.) The CGT controlled three of the six national confederations of labour which together accounted for 70 percent of Brazil's 1,800 *sindicatos*. The CNTI (industrial workers), the principal organisational and financial base of the CGT, alone, represented half of the 1.5 million unionised urban workers in Brazil. The leaders of the CGT, more independent-minded, more radical, more militant than the old *pelegos*, belonged to the left of the PTB and the illegal PCB (which was also tolerated by the Goulart government). There was in 1963 a marked increase in strike activity: 172 strikes compared, for example, with only 31 in 1958 (435 strikes in the period 1961–1963 compared with 177 in 1958–1960). Public sector workers were responsible for 60 percent of the strikes in 1963 (compared with 20 percent in 1958).

At the same time the organisation of rural workers continued apace. By the end of 1963, 270 unions of rural workers, with half a million members, had been legally recognised and another 500 awaited recognition. In November 1963 a National Confederation of Agricultural Workers (CONTAG) was created, affiliated with the CGT, and immediately organised

a strike of 200,000 Pernambuco sugar cane workers. As we have seen, the PCB was openly active in the organisation of rural and well as urban workers, as was the PCdoB which had split from the PCB in February 1962²² – and progressive elements in the Catholic Church. The União Nacional de Estudantes (UNE) was promoting a level of student militancy not seen before in Brazil. And many students, along with intellectuals and artists, joined a variety of New Left groups influenced either by Marxism/Castroism in the aftermath of the Cuban Revolution or radical Catholic doctrine under the impact of Pope John XXIII's encyclicals, *Mater et Magistra* (May 1961) and *Pacem in Terris* (April 1963). Two Catholic movements, Juventude Universitária Católica (JUC) and Ação Popular (AP, formed in June 1962), played a significant political role in the strikes, political meetings and protest demonstrations of the early 1960s. The principal voice of those who wanted radical, redistributive social reforms, a nationalist model of economic development and an independent pro-Cuba, anti-U.S. foreign policy was the Frente de Mobilização Popular. Its rhetoric was 'maximalist', and it was systematically and aggressively opposed to the Goulart government.

There were even demands for change from within the military. In May 1963 more than a thousand NCOs, mainly sergeants, joined a movement for basic reforms, including their own political rights. More serious, on 12 September 1963 600 Navy and Air Force sergeants rebelled in Brasília (*a revolta dos sargentos*) and for a period held captive the President of the Chamber of Deputies and a minister of the Supremo Tribunal Federal (STF, Brazil's Supreme Court) in protest against a decision of the Court to reject their right to be elected to public office. This act of military insubordination was aggravated by the fact that the CGT immediately began organising a general strike in support of the sergeants.

One explanation for the political and ideological radicalisation and popular mobilisation of 1963, besides the demographic and social changes of the previous two decades leading to greater popular political participation,

²² Following Khrushchev's denunciation of Stalin in the Soviet Union in 1956, some leaders of the Partido Comunista do Brasil (PCB), including Diógenes Arruda, João Amazonas and Maurício Grabois, distanced themselves from the central committee of the party and subsequently opposed 'revisionism' in the PCB, in particular the abandonment of Marxist-Leninist ideology and the revolutionary struggle, and the Declaration of March (1958) in which the PCB admitted for the first time the validity of the electoral road to socialism. In 1960 the PCB changed its name to Partido Comunista Brasileiro. The 'stalinists' were eventually expelled or left the PCB and in February 1962 formed a separate Communist party, adopting the name Partido Comunista do Brasil with the acronym PCdoB.

the expectations raised by the presidencies of Jânio Quadros and João Goulart and external influences like the Cuban Revolution and Vatican II – and one of the justifications for the coup that eventually brought an end to the Goulart administration in March 1964 – was the state of the economy. In 1963 the Brazilian economy entered a period of recession after twenty years of almost continuous growth since Brazil entered the Second World War in 1942.²³ Despite the legacy of Juscelino Kubitschek's 'irresponsible' overspending and budget deficits and almost two years of economic mismanagement by Quadros and Goulart which saw a weakening of fiscal and monetary control and the net inflow of new foreign direct investment down to less than a third of its level in the late 1950s, the economy grew by 6.6 percent in 1962 (albeit the lowest rate of GDP growth since 1956). Inflation, however, reached an annual rate of 50 percent in 1962. The well-known economist Celso Furtado, who was appointed Minister of Planning in September 1962, introduced on 31 December (despite his own past heterodox views) a rather orthodox *Plano Trienal* for the stabilisation of the economy by means of cuts in public expenditure and restrictions on credit. The CGT opposed it, business distrusted it and it was abandoned at the end of May 1963. Instead an increase of 70 percent was awarded to civil servants and the military (instead of the 40 percent recommended by the IMF) and the minimum wage was raised by more than 50 percent. And this after Congress had already introduced the 'thirteenth salary' (an additional month's wage paid to all workers at the end of the year). A conservative *paulista*, Carlos Alberto Carvalho Pinto, the former governor of São Paulo, was appointed Finance Minister in June, but the Goulart administration had by this time no credible economic policy. Growth in 1963 was only 0.6 percent. For the first time since Second World War per capita income *fell* (by 2.3 percent). Inflation was 75 percent and was approaching an annual rate of almost 100 percent by the first quarter of 1964.

Thus, for a variety of reasons and from a variety of sources, Goulart came under increasing pressure throughout 1963 to implement more radical reforms than he wished or could possibly deliver – pressure he could not ignore, however, if he was to maintain, or rather recover, his leadership of Brazil's 'popular classes', his principal political 'base'. Goulart had constantly to confirm his commitment to basic reforms. He began a speech,

²³ On the economy in the early 1960s and the economic policies of Goulart administration, see Chapter 5 in this volume.

for example, at a CGT *comício* on 23 August with a moderate discourse, for which he was jeered, and ended up promising '*no ano que vem estaremos celebrando as reformas* [next year we will be celebrating the reforms]'.²⁴ In a speech the next day, 24 August, the anniversary of Getúlio's suicide, he confirmed that he would lead the popular campaign for radical reforms, bringing direct pressure on Brazil's 'reactionary' Congress.

Strikes by urban workers, mobilisations of peasants and agricultural workers, military insubordination, the resurgence of the populist-nationalist (and Communist) Left, the perceived threat to law and order and democratic institutions and, above all, Goulart's ambivalence to all of this further polarised political forces in Brazil by radicalising the Right and strengthening its resistance to even moderate reform. Opposition to Goulart gathered momentum – from business, national and foreign, from the National Confederation of Industry (CNI) and the São Paulo Federation of Industry (FIESP), both of which had initially backed the *Plano Trienal* until the demands of the CGT became unacceptable, from the landed interest, increasingly alarmed at the level of organisation and mobilisation of rural workers, from the propertied classes in general and, not least, from sections of the military, aided and abetted by the United States. In the context of the Cold War and the Cuban Revolution there was a growing fear on the Right that Brazil faced perhaps for the first time in its history a real threat of social revolution from below.

Was there an organised conspiracy to overthrow Goulart? Certainly there was a prolonged campaign to destabilise his government, but the degree to which the 1964 *golpe* was long premeditated has perhaps been exaggerated. In this regard much attention had been focussed on the Instituto de Pesquisas e Estudos Sociais (IPES). Founded November 1961, it merged with the anti-communist Instituto Brasileiro de Ação Democrática (IBAD) from late 1950s, bringing together *empresários* (three quarters of the leaders of FIESP were members) and economists and intellectuals (Eugênio Gudin, Mario Henrique Simonsen, Antônio Delfim Neto, Roberto Campos) linked to the military through the Escola Superior de Guerra (ESG). In his book, *1964. A conquista do estado* (1981), René Dreifuss refers, not entirely convincingly, to the 'IPES/IBAD complex', with at its peak 500 *ipesianos* in six states, as the high command of the Brazilian bourgeoisie, conspiring to undermine and eventually to bring down Goulart with its unrelenting propaganda in favour of free enterprise, the market economy,

²⁴ Figueiredo, op. cit., p. 126.

private property rights, the need for foreign capital in a modern capitalist economy, freedom and democracy. In the military there were senior figures like Oswaldo Cordeiro de Farias, the recently retired head of the Joint Chiefs of Staff, who were determined to have their revenge for August 1961. '*Não exerci qualquer cargo, civil ou military... Fiquei com tempo integral para conspirar* [I did not hold any post, civil or military... I was a full time conspirator]', he boasted.²⁵ Some in the so-called 'Sorbonne' group (a reference to their links to the Escola Superior de Guerra) – Humberto Castelo Branco, the Army Chief of Staff, Golbery Couto e Silva, Jurandir Mamede and Ademar de Queirós – were in regular contact with UDN politicians increasingly hostile to Goulart and, as always, willing to foster military intervention. But Castelo Branco, fearing popular mobilisation in favour of Goulart, armed confrontation, a military divided and even civil war, consistently advised caution.

The precise role of the United States in the 'conspiracy' against Goulart remains controversial. In the context of the Cold War, the Cuban Revolution and its possible impact on the rest of the Western Hemisphere the Kennedy administration which came to power in January 1961 was from the beginning concerned at political developments in Brazil: first, the independent foreign policy and open support for Cuba of President Quadros (elected at the same time as Kennedy), then Quadros's resignation which brought to power Goulart, a man regarded as profoundly anti-American and, unlike Quadros, a man of the Left. A meeting between Kennedy and Goulart in Washington in April 1962 had not been reassuring. Richard Goodwin, special assistant to the president on questions relating to Latin America, had apparently argued in favour of a coup against Goulart at the time, but the president and Lincoln Gordon, the U.S. ambassador in Brazil (since the end of 1961) had been against it. It was agreed, however, that at the very least the U.S. government needed better intelligence on Brazil. Gordon had suggested that Colonel Vernon Walters become military attaché in Brasília. Walters had worked with the FEB in Italy towards the end of the Second World War, knew both Castelo Branco and Cordeiro de Farias well, and spoke excellent Portuguese. At the same time the CIA began to focus on the need to destabilise a regime it regarded as fundamentally hostile to U.S. interests. Through IBAD it gave some financial support to the opposition, mainly UDN politicians, in the October 1962

²⁵ Aspásia Camargo and Walder de Góes (eds.), *Meio século de combate: diálogo com Cordeiro de Farias* (Rio de Janeiro, 1981), p. 535.

Congressional elections – US\$5 million (said Gordon), US\$20 million (said former CIA spy Philip Agee).²⁶ The majority of Alliance for Progress/AID loans went to states with anti-Goulart governors. After a meeting with Goulart in the Palácio da Alvorada in Brasília in December 1962 on the eve of Goulart's assuming full presidential powers (after the Cuban missile crisis had buried plans for President Kennedy to visit Brazil), Robert Kennedy, the U.S. Attorney General (and the president's brother), left convinced that there was a real danger that Brazil would ally itself not only with Cuba but also with the Soviet Union and China and that Goulart would take Brazil in the direction of communism unless he were stopped.

The U.S. government continued to show a keen interest in Brazilian domestic politics during 1963 and opposition to Goulart deepened with his apparent failure to prevent the rise of radical forces on the Left (interpreted in Washington as allowing 'communist infiltration' of Brazil). Ambassador Gordon was frequently recalled for briefing meetings at the White House by both President Kennedy and, after Kennedy's assassination in November, President Johnson. In Brazil Vernon Walters was on particularly close personal terms with the leaders of the civil and military opposition to Goulart and U.S. sympathy with their aims was evident. But in his various writings and numerous interviews on the subject Gordon has always rejected the claim that the United States was *actively* involved in any conspiracy to overthrow down Goulart.

In an interview in the *Los Angeles Times* on 29 September 1963 in which he virtually invited U.S. military intervention, Carlos Lacerda described Goulart as 'a communist version of a South American-style totalitarian', who only remained in power because the Brazilian military itself had *so far* failed to remove him. 'I don't think this thing will go to the end of the year', Lacerda declared.²⁷ On 1 October Goulart's military ministers condemned Lacerda and requested the imposition of a state of siege. Four days later, after a meeting with union leaders and several generals in the presidential palace in Rio, Goulart sent a message to Congress requesting extraordinary powers under a thirty-day state of siege, citing 'obscurantist and reactionary forces' conspiring against his government and his reforms. This produced ferocious opposition from across the political spectrum, in

²⁶ Philip Agee, *Inside the company: CIA diary* (London, 1975), p. 325.

²⁷ *Los Angeles Times*, 29 September 1963, interview with Julian Hartt under the heading: 'Brazil governor sees Goulart fall, urges U.S to withhold aid funds. Brazilian sees Goulart ouster'. See also the article on Brazil in *Time* magazine, 11 October 1963, under the heading: 'State of chaos'.

and out of Congress. Goulart was accused of trying to repeat what Vargas had done in 1935–1937 and establish a dictatorship. Even the PTB opposed the move, fearing repressive measures against the Left as much as the Right, since Goulart would not be able, in the end, to control the military. On 7 October the request was withdrawn. The president's isolation was complete.

With hindsight, the formation of the Frente Progressista de Apoio à Reformas de Base in November, an initiative of PTB deputy and former Foreign Minister San Thiago Dantas, aimed at uniting the progressive forces of the Centre-Left or *esquerda positiva* in support for Goulart, halting the radicalisation of the Left and preventing the golpe the Right was believed to be planning, constituted a last chance for reform, especially agrarian reform and the right of illiterates to the vote, by democratic means – that is to say, through Congress. But if this were ever possible, it was certainly too late now. The reform-minded wings of both the PSD and the UDN had moved significantly to the Right under pressure from their social bases. The PSD, in particular, was now united in opposition to Goulart and the reforms. At the same time, the leaders of the PTB/FPN (and the PCB) were now suspicious of Goulart's intentions, conscious of his weaknesses, and no longer confident that he wished to, or could, implement reforms to which they could subscribe. Brizola, for example, had more or less abandoned Congress and committed himself to extra-parliamentary confrontation. Since October he had been devoting all his energies to the formation of so-called Grupos dos Onze in Rio Grande do Sul and several other states, advanced guards of a revolutionary movement who would liberate the country from international capitalist oppression and the internal allies of international capital and establish a government of the people.

At the end of 1963 and beginning of 1964 Goulart was tired, stressed and, Samuel Wainer and several of his other friends told Lincoln Gordon,²⁸ increasingly desperate. He had, according to Wainer, three options: first, he could accept the reality that there was no parliamentary majority for even moderate reforms, abandon the reform programme, face down the opposition from the Left, continue to govern, and serve out his mandate cutting ribbons at the inauguration of public works and making speeches on national holidays; secondly, he could, like Jânio Quadros, resign (suicide

²⁸ 'Lincoln Gordon e o papel dos EUA no golpe de 64', *O Estado de São Paulo*, 6 May 2001.

was apparently ruled out); thirdly, he could establish a popular (populist?) dictatorship and impose basic reforms on the country.

In March 1964 Goulart, surprisingly in view of his reputation for weak leadership, vacillation and irresolution, made a decisive bid to break the stalemate. He adopted the bold strategy of creating an opening to the Left by allying himself with the more radical forces in favour of basic reforms. What he had in mind has never been satisfactorily explained. To prepare the ground for the *golpe* and the dictatorship of the Left the Right always accused him of planning? Simply to increase the pressure on Congress? In view of the attempted coups against him in the past and the growing conspiracy to depose him at the time, he was taking an enormous risk. Was it a calculated gamble? Was he inviting a showdown? He seemed to believe that the PSD, the UDN and the smaller parties of the Right in Congress and the governors of the big three states (Ademar de Barros in São Paulo, Magalhães Pinto in Minas Gerais and Lacerda in Guanabara) would opt for institutional continuity rather than rupture. All three governors were, after all, 1965 presidential hopefuls. He was confident he had the support of organised labour, and popular support more generally. He also believed the military high command, however divided on the reforms, whatever its apprehensions about the state of the country and the growing indiscipline and politicisation of the lower ranks, remained fundamentally constitutionalist/legalist and, as in August 1961, would never act to remove him from power by force without the certainty of broad popular support and the certain support of their troops.

This proved to be a disastrous miscalculation. Tragically – for himself and for Brazil – Goulart misread the relative strength of political forces in Brazil. He overestimated the strength of those in favour of political, economic and social change and underestimated the strength of the existing power structure, civil and military, and its unity and decisiveness when its interests were, or appeared to be, threatened.

On Friday 13 March at a *comício* held in the square in front of the Central do Brasil railway station alongside the Ministry of War building in downtown Rio de Janeiro President Goulart appeared on a platform with PTB ministers and the leaders of the CGT, the UNE – and the PCB, before a crowd of 150,000–250,000, many of them waving red flags. The dominant discourse of the meeting was revolutionary ('all power to the people'). Goulart publicly signed two decrees: one for the compulsory expropriation of rural properties of more than 500 hectares within ten kilometres of federal roads and railways and properties of more than 30

hectares alongside government-financed dams – without compensation in cash (thus revoking Articles 141 and 147 of the Constitution), the other for the expropriation of the few private oil refineries not in the hands of Petrobras. He also promised to implement other *reformas de base*, including votes for illiterates, regular plebiscites, a higher minimum wage and rent controls. Congress was denounced as ‘*arcáico*’ (‘*não mais correspondia as aspirações do povo* [no longer in tune with the aspirations of the people]’) and radical constitutional changes were promised either by means of a new Constituent Assembly (the PCB supported a ‘*Constituinte com Jango*’ just as it had supported a ‘*Constituinte com Getúlio*’ in 1945) or a Congresso Popular of workers, peasants and soldiers, as proposed by Brizola ‘*do qual raposas velhas da política tradicional fossem eliminadas* [from which the old ‘foxes’ of traditional politics would be eliminated]’.²⁹ And all of this live on television. Two days later, on 15 March, in his annual Message to Congress, the president again emphasised the need for agrarian reform, the extension of the right to vote to illiterates (and to sergeants and enlisted men in the armed forces), regular plebiscites on *reformas de base* – and, for the first time, the possibility of the re-election of the president. ‘*As Esquerdas*’, wrote the journalist and Socialist deputy Barbosa Lima Sobrinho in *O Semanário* ‘*têm um novo Comandante* [The Left has a new Leader]’.³⁰

The *comício* of 13 March followed by the Message to Congress had a huge impact on an already agitated and polarised society. It produced a decisive reaction from the opposition, civilian and military, individual and collective, and led directly to the military coup two weeks later. If there was no conspiracy as such before, there was certainly one now. Goulart’s actions confirmed the fears of the opposition, overcame any remaining constitutional/legalistic scruples it might have and reduced the costs for those willing to break the democratic rules to remove him. In 1964, unlike 1961, the *golpistas* carried the banner of constitutional legality, even though the constitutionally elected president had not yet actually taken any illegal steps. The Congressional leaders, both PSD and, of course, UDN, and the most important governors had come to believe that Goulart would either cancel the 1965 elections or would change the Constitution to allow his own reelection – or, worse still, would facilitate the election of Brizola. (On the streets the slogan ‘*Cunhado não é parente, Brizola para presidente*

²⁹ *O Panfleto* 16 March 1964, quoted in Figueiredo, op. cit., p. 181.

³⁰ *O Semanário* 19/3 – 1/4/1964, quoted in Figueiredo, op. cit., p. 159.

[a brother-in-law is not a relative, Brizola for president]’ could be heard and seen.)

Equally significant, the radicalisation of the Left’s demands for reforms and months of political propaganda against the Goulart government and its alleged determination to take Brazil down the road to communism, confirmed it seemed by Goulart’s recent actions, had finally overcome urban middle-class reluctance to engage in collective action. Unlike August 1961, it was now possible to mobilise popular support for the overthrow of the constitutional government. A minority movement of *golpistas* had been converted into a broad coalition in favour of a military solution to the crisis. On 19 March the *Marcha da Família com Deus pela Liberdade* in São Paulo mobilised 300,000–500,000 ‘democratically inspired’ people, most notably but by no means only upper and middle class women. It was, according to *O Estado de São Paulo*, the greatest day in the history of the city. At the same time, a little known American priest, Father Patrick Peyton, mobilised Catholic opinion in Belo Horizonte with a *Cruzada do Rosário em Família*.³¹ Other mass demonstrations were planned: nine in São Paulo in the ten days to the end of March, two in Rio de Janeiro in early April.

The U.S. government was kept informed about political developments in Brazil by a network of CIA agents, by the politicians, businessmen and journalists who spoke to Lincoln Gordon and by the generals close to Vernon Walters. At a high-level meeting at the White House on 20 March attended by, among others, Ambassador Gordon, Secretary of State Dean Rusk, and the head of CIA John McCone, President Johnson approved a contingency plan that authorised the sending of a naval task force to Brazil (the aircraft carrier *Forrestal* and six or seven other vessels, including oil tankers, but no troops and at this point and no arms or ammunition – the force was not equipped for full-scale military intervention), to ‘show the flag’, to evacuate U.S. personnel and to support the anti-Goulart forces, in case of conflagration, civil war and prolonged conflict there. This was the origins of the notorious Operation Brother Sam.

The same day, 20 March, the Army Chief of Staff Castelo Branco had issued a *circular reservada* to his closest colleagues, including Oswaldo Cordeiro de Farias, Antônio Carlos Muricy, Ernesto Geisel and Ademar de Queirós, none of whom it should be said commanded troops at the time, emphasising the need for the military to respect the authority of the

³¹ I am grateful to José Murilo de Carvalho for drawing my attention to this little-known fact.

president and always to act within the limits of the law (*'sempre dentro dos limites da lei'*), but at the same time warning of a possible institutional rupture (*'ruptura institucional'*) initiated by Goulart himself – in which case *'profissionalismo militar'* (i.e., strict constitutional legality) might have to be set aside.

Decisive for Goulart's eventual loss of military support was a mutiny of sailors and marines in Rio de Janeiro on 25 March led by José Anselmo dos Santos, *'Cabo Anselmo'*, since discovered to have been an agent of CENIMAR, the Navy's intelligence organisation. The mutineers gathered, provocatively, at the Palácio do Aço, the headquarters of the Rio metalworkers union. The president condoned the mutiny, dismissed the Minister of the Navy who tried to repress it and replaced him with a minister indicated by the CGT. This incident, more than any other, galvanised the *corrente golpista* within the military. Already concerned about economic, financial and administrative chaos, political and social disorder, anarchy, the drift to communism, and so forth, there was now concern at attacks on military hierarchy and discipline and the politicisation of the armed forces, that is to say, the future of the military as an institution. And behind all this was the spectre of a military-labour-Left alliance, a soviet-style workers' and soldiers' revolution. This was more than enough to justify military intervention to bring down the president. And the military was now confident of broad civilian support for military action.

Ambassador Gordon was now telling Washington that he was convinced Goulart was a Communist intent on a *golpe* leading to the establishment of a Communist dictatorship. On 27 March he recommended that the United States support what he called the 'Resistance group' or the 'Castelo Branco movement' which, unlike the 'anti-Goulart coup groups' that had approached him in the past, had competent leadership and commanded wide support. The U.S. government should exert all its influence to avert a major disaster 'which might make Brazil the China of the 1960s'. The CIA should be authorised to take part in covert operations. The Operation Brother Sam task force should be sent and it should include arms and ammunition, though not troops. (*'Arma'* – the code name for Walters – would provide information on what the *golpistas* estimated were their needs.)

On 30 March Goulart attended a meeting of NCOs, mostly sergeants, of the Federal armed forces and the state military police of Guanabara at the *Automóvel Club do Brasil* in Cinelândia, Rio de Janeiro. Fearing that this would provide the final justification for armed military intervention,

General Argemiro de Assis Brasil, chief of the *Casa Militar*, Tancredo Neves, the leader of the government *bancada* in the Chamber of Deputies, and Raul Ryff, the president's press secretary, had all strongly advised him not to go. The uncompromisingly radical speech Goulart delivered that evening, with its appeal for support from the lower ranks in the military, was indeed his final political suicide note. When the newspapers appeared the following morning, all except for *Ultima Hora* overwhelmingly hostile (even the pro-reform *Correio da Manhã* demanded Goulart's resignation), the *golpe* had already begun.

THE GOLPE MILITAR OF 1964

On 30 March General Olímpio Mourão Filho (the author of the flagrantly fraudulent Plan Cohen for a Communist takeover in Brazil which had been used to justify the establishment of the Estado Novo dictatorship in 1937), commander of the fourth Infantry division of the military region of Juiz da Fora in Minas Gerais, who had grown increasingly impatient at the delay in removing Goulart from power, on his own initiative took the decision to march on Rio de Janeiro at dawn the next day. Mourão's decision was opposed by General Carlos Luís Guedes, commander of the infantry division based in Belo Horizonte, but backed by the governor of Minas Gerais José de Magalhães Pinto. In the early hours of 31 March 4,000 troops moved on Rio 200 kilometres to the south intent on deposing Goulart. Army Chief of Staff Humberto Castelo Branco, who had not been informed in advance of the uprising, went immediately to the Ministry of War building, where he found total confusion. The Minister, General Dantas Ribeiro, a Goulart supporter, was at the time in the Hospital do Exército dying of cancer. Since Mourão was generally regarded as unreliable, crazy even, Castelo Branco sent General Antônio Carlos Muricy from Rio to join him. Support for the military uprising was uncertain, but there was also little opposition. In Rio, the Vila Militar offered no resistance, and the First Army adhered. But what of the Second, Third and Fourth Armies? Walters was pessimistic. At 19.05 he cabled Washington to say that the military was divided, there was apparently little support for the rebels, and he feared they might lose: 'The democratic forces (*sic*) are in serious danger'.

At 22.00 Goulart, in the Palácio das Laranjeiras, the president's official residence in Rio de Janeiro, turned to General Amaury Kruel, commander of the Second Army based in São Paulo, a long-time friend and supporter,

a former head of his Casa Militar and his Army Minister, the *padrinho* of his son João Vicente, a solidly legalist general, and no friend of what Lincoln Gordon referred to as the ‘Castelo Branco gang’. Kruel advised him to back off once and for all, to break publicly with the Left, especially the Communist Left, to make changes to the cabinet and to declare himself against the CGT and the threatened general strike in his support. The same advice was given by General Peri Constant Bevilaqua, veteran former commander of the Second Army, another well-known constitutionalist who, as commander of the third Infantry division in Santa Maria, Rio Grande do Sul, had opposed the military veto on Goulart in August 1961 and who had since resolutely refused to join any of the movements against Goulart. When Goulart refused to follow their advice – arguing that it would represent a humiliating capitulation, that it would turn him into a ‘*presidente decorativo*’, and that it was too late anyway – Kruell abandoned him and declared himself in favour of the *golpe*. It was perhaps the single most decisive act that determined the outcome of the military revolt against Goulart. The Fourth Army in the Northeast under the command of General Justino Alves Bastos joined the opposition to Goulart, leaving a question mark only over the Third Army in Rio Grande do Sul. Hence Cordeiro de Farias’s famous remark: ‘*O Exército dormiu janguista no dia 31 e acordou revolucionário no dia 1st* [The Army went to sleep *janguista* (on Jango’s side) on the 31st and woke up revolutionary on the 1st]’.

On the morning of 1 April Gordon told Washington that the ‘democratic revolt’ was 95 percent victorious. When Generals Mourão and Muricy arrived in Rio, however, they were outmanoeuvred, as were Castelo Branco and his co-conspirators, by the relatively unknown General Artur da Costa e Silva, the Head of the Department of Production and Works, who audaciously declared that, as the most senior member of military high command in Rio de Janeiro, he was replacing the President as Commander-in-Chief of the Army.³² On 2 April he established a ‘Supreme Command of the Revolution (*sic*)’, a ruling triumvirate consisting of the heads of

³² Castelo Branco, for example, was two years older than Costa e Silva. They had graduated from the same class at the Escola Militar in 1921. Costa e Silva was *mais antigo* (senior) in the military hierarchy because he had obtained a better classification than Castelo Branco at the end of the course. However, his seniority in this sense over the other generals who supported the coup (e.g., Cordeiro de Farias and Bevilaqua) was not clear. Naturally, the legalist generals were not taken into consideration. I am grateful to Celso Castro for this information.

the three armed forces: Brigadier Francisco de Assis Correia de Melo (Air Force), Vice-Admiral Augusto Rademaker (Navy) and Costa e Silva himself as the representative of the Army and clearly the junta's strong man.

The troop movements had lasted less than forty-eight hours. There had been no military confrontation. Hardly a shot had been fired. No single soldier had been killed, and only seven civilians (workers and students) – three in Rio, two in Belo Horizonte and two in Recife where Governor Miguel Arraes had refused to go quietly and had been removed from the Palácio das Princesas in Recife by force (and imprisoned on the island of Fernando de Noronha). The governors of the three most important states – Carlos Lacerda (Guanabara), Magalhães Pinto (Minas Gerais) and Ademar de Barros (São Paulo), Congressional leaders like Afonso Arinos de Melo Franco, Olavo Bilac Pinto and Milton Campos (UDN), and José Maria Alkmin (PSD), business leaders, landowners, Catholic Church leaders, the press, all rushed to support the 'Revolution'. The urban middle class in Rio de Janeiro, São Paulo and other major cities celebrated with huge Victory Marches (*Marchas da Vitória*). But, again, where were the people (*o povo*)? Luís Carlos Prestes, for example, had repeatedly declared that '*se a reação levantar a cabeça, nós a cortaremos* [if the forces of reaction raise their heads, we will cut them off]'. But as so often in Brazilian history the people ignored the call to arms. With half the adult population not yet even having the right to vote, only a small minority could be said to be politically conscious. The CGT's radio broadcast calling for a general strike by organised labour was ignored – further confirmation that the CGT was a *cúpula* (leadership) without a base, with little political power, able to mobilise successfully only when conditions were favourable to strikes for economic gains. The students remained for the most part passive. The Left, Marxist and non-Marxist, proved weak and disorganised. Rural Brazil largely ignored the events in Minas Gerais and Rio de Janeiro. And Goulart himself refused to encourage armed civilian resistance.

João Goulart flew from Rio de Janeiro to Brasília at 2 p.m. on 1 April. At 10:30 p.m. he flew to Porto Alegre, arriving in the early hours of 2 April. There he found his brother-in-law Brizola and General Ladário Teles, commander of the Third Army, prepared for resistance – as in August 1961. Brizola had a plan to arm 11,000 civilians, but Goulart refused to sanction it. Nor was he prepared to attempt to negotiate with the rebels. He decided the game was up and it was hopeless to resist. He chose instead to avoid unnecessary bloodshed and leave the country – for which betrayal, or as

he saw it 'loss of nerve', Brizola never forgave him. He refused to speak to Goulart for almost ten years – until a brief meeting in Montevideo in 1973.

What was the U.S. role in the 1964 *golpe*? Gordon claimed that he was as surprised as everyone else by Mourão's decision to march on Rio. He was at home watching Goulart's speech at the Auto Club on television. But it was precisely in the evening of 30 March that Secretary of State Dean Rusk, after talking to Gordon on the telephone and reading CIA telegrams warning of the imminence of the military revolt ('The revolution will not be decided rapidly and will be bloody'), had told President Johnson that the crisis was going to peak in the next day or so, possibly as early as the following morning. He was well informed. The decision was taken to put Operation Brother Sam into action. At 13.30 the next day, 31 March, only a few hours after Mourão had initiated the coup, a fleet led by aircraft carrier *Forrestal*, transporting more than 100 tons of arms and ammunition and including four tankers with half a million barrels of fuel, left Aruba in Puerto Rico bound for Santos (with an expected date of arrival 11 April). At same time Johnson told George Ball, Undersecretary of State, to be prepared to do 'everything necessary' to make sure Goulart did not survive in power.

On 1 April Johnson called to the White House Rusk, Ball, Secretary of Defense Robert McNamara, the Director of the CIA, senior military personnel, and senior White House staff for a full briefing on Brazil. By this time the situation there was more favourable to the insurgents than had been expected earlier. Rusk reported that Ambassador Gordon was not advocating U.S. support at this stage. And this was agreed – so as not to give Goulart an 'anti-Yankee banner' under which to rally support for his cause. But the task force was on its way. And McNamara also reported that additional arms and ammunition were being assembled for airlift in New Jersey and could be there within sixteen hours once the decision to send them was taken. The U.S. government was clearly not disposed to permit the Brazilian *golpe* to fail. But the planes never took off. The fleet never arrived. The *golpe* was successful; and there was no civil war. At midday on 2 April Operation Brother Sam was de-activated. In the event, therefore, there was no direct U.S. participation in the *golpe* against Goulart. We will never know how far the U.S. government would have gone in its support if it had been required.

Meanwhile at dawn on 2 April, Auro de Moura Andrade, president of the Senate, had declared the presidency vacant and, as in August 1961 after the

renúncia of Jânio Quadros, installed federal deputy Ranieri Mazzilli (PSD-São PauloSP), president of Chamber of Deputies since 1958, as interim president for thirty days – the second time he had held the post in less than three years. This was clearly unconstitutional. Goulart had not renounced the presidency. Nor had he (yet) left the country without the authorisation of Congress. President Johnson nevertheless immediately sent a telegram of recognition and support to President Mazzilli. For Goulart, this time there was no coming back, even with reduced powers. On 4 April he left Brazil for exile in Uruguay. Solitary and depressed, he remained in exile for the rest of his life. He died on 6 December 1976 in the Argentine province of Corrientes.

The 1964 *golpe* led neither to an immediate handover of power to another civilian government nor to elections – to the disappointment, in particular, of the leading state governors – but to regime change, the overthrow of Brazil's fragile democratic political institutions and the installation of a military dictatorship. The military abandoned the old 'moderating' pattern of military–civilian relations and, with considerable civilian support, determined to stay in power and govern Brazil. This decision reflected the extent to which by the early 1960s the Right broadly defined, including large sections of the urban middle class, had, like the Left broadly defined, rejected the 'legitimacy' of Brazil's postwar democracy. Neither was any longer willing to make the compromises necessary to ensure its survival. Whereas many on the Left had come to believe that 'bourgeois democracy' could not satisfy their demand for (relatively modest) economic and social reform and were prepared to take the struggle outside Congress and to the streets, many on the Right proved to be 'fair weather democrats', only willing to support democracy so long as the growing demands for economic and social reform were contained and frustrated and prepared, if necessary, to support military intervention – and military rule – to prevent what they regarded, or claimed to regard, as the threat of communism. The military's decision to stay in power was also a reflection of its own confidence in its capacity to govern, its new professionalism (in 1964 two-thirds of the active duty generals were graduates of the ESG), its anti-Communist Cold War ideology, and its project for national security and national economic development in association with international capital. In government, the military planned to remove the 'communist threat', reform Brazil's political institutions ('restore democracy (*sic*)'), stabilise the economy and create the conditions for a return to economic growth, and, not least, re-establish

discipline and hierarchy in the armed forces. It was at this stage divided over whether its stay should be short or long.

The military leaders of the coup and the leading civilian state governors finally settled on General Castelo Branco as the best choice for president. On 11 April he was confirmed by Congress (a Congress already purged of many of its PTB deputies, especially those on the nationalist Left or associated with the PCB) to serve out Goulart's term of office until 31 January 1966 (with the next presidential elections therefore scheduled for October 1965). He was inaugurated on 15 April, with General Costa e Silva appointed Minister of War. In June Castelo Branco's mandate was extended by more than a year to 15 March 1967 (with elections now set for October 1966). But in the event these elections were cancelled and Costa e Silva succeeded Castelo Branco as president in March 1967 after an indirect 'election' by a purged Congress. The military regime would endure for twenty-one years – until March 1985.

3

POLITICS IN BRAZIL UNDER MILITARY RULE, 1964–1985

Leslie Bethell and Celso Castro

INTRODUCTION

The *golpe militar* (military coup) of 31 March–1 April 1964 which overthrew the legally constituted government of President João Goulart made use of a good deal of democratic rhetoric: one of the principal aims of what the instigators of the coup called the ‘Revolution’ of 1964, besides ending the ‘chaos, corruption and communism’ of the Goulart administration and restoring discipline and respect for hierarchy in the Armed Forces, was the elimination of the threat, as they saw it, that the Goulart administration posed to Brazilian democracy. The coup was, in this sense, a counter-coup for democracy. In the aftermath of the coup, however, by means of a series of so-called *Atos Institucionais* (Institutional Acts), complementary acts, a new Constitution, a revised Constitution, constitutional amendments and various so-called *pacotes* (packages of arbitrary measures), the military regime established in April 1964, while never entirely destroying them, radically remodelled and severely undermined the democratic institutions, albeit limited and flawed, established in Brazil at the end of the Second World War.

For twenty-one years, until the transition to civilian rule (though not yet to a fully fledged democracy) in March 1985, Brazilians lived under authoritarian military rule. During this period a succession of five presidents, all of them senior (four-star) generals, were first selected by the military high command (after 1967 formally constituted as the Alto Comando das Forças Armadas) and then indirectly ‘elected’, at first by Congress, later by an Electoral College, a majority of whose members were guaranteed to support the military’s chosen candidate. From 1966 until 1978 state governors were similarly appointed by the military and then indirectly ‘elected’ by state assemblies or state electoral colleges. Only in 1965 and 1982 were state

governors directly elected. Mayors (*prefeitos*) of state capitals and other cities of importance to 'national security' were directly appointed by the military. Congress and state legislatures continued to be elected every four years by direct secret vote, but they were closed from time to time for limited periods, and their powers were much curtailed. As a result of population growth, urbanisation and some improvement in the level of literacy (a requirement for voter registration), the electorate expanded significantly during the period of military rule – from twenty-two million in 1966 to almost sixty million in 1982. But the suffrage was still not universal: some 35 percent of the adult population (more than 50 percent in parts of the Northeast) was illiterate and therefore disenfranchised in 1964, and 22 percent still in 1985. And elections were not free: the old party system was completely restructured in 1966, leaving (until the return to a multiparty system in 1979) only two parties, a pro-government Aliança Renovadora Nacional (ARENA) and an opposition *Movimento Democrático Brasileiro* (MDB); the rules of the game were frequently changed to the electoral advantage of ARENA (renamed Partido Democrático Social, PDS, in 1979); the media was heavily censored; and campaigning by the opposition party (after 1979 opposition *parties*) severely restricted.

Unlike the two previous interventions by the military in Brazilian politics for regime change in the twentieth century (the Revolution of 1930 which overthrew President Washington Luís Pereira de Sousa, the last president of the First Republic, and the overthrow of President Getúlio Vargas in 1945 after fifteen continuous years in power), the 1964 coup led to the establishment of a durable military *regime*. The military did not, of course, rule alone. Right-of-Centre politicians and technocrats had an important role to play under successive military governments. However, we can qualify the regime as military because, during the entire period, the higher echelons of the Armed Forces retained at all times the power to impose their will and keep civilian opposition and popular political participation under strict control. When they were confronted by, or became dissatisfied with, even the limited opposition political activity they allowed, the military governments acted in a highly authoritarian manner, especially under the infamous Institutional Act no. 5 (AI-5) of December 1968 which remained in force for ten years. Although the Brazilian military dictatorship was less invasive and brutal than those of neighbouring countries in the Southern Cone, it did resort at times, especially in the period 1969–1972, to the most extreme forms of political repression (exile, imprisonment, torture and assassination).

The military as an institution was throughout this period united in defense of the 'Revolution' of 1964 and the military regime it produced. It is important to emphasise, however, that in no way was the military regime homogeneous over time, either in the composition and ideological orientation of the military officers in power, or in the intensity of the repressive measures it adopted towards the opposition. The period of military rule can be divided into four phases.

The first phase extends from the 1964 coup to AI-5 (December 1968), encompassing the entire three-year term of office of the first military president General Castelo Branco (to March 1967) and the first two years of General Costa e Silva's term of office (1967–1968). In these years, officers with a more radical orientation ('hardliners') demanding the indefinite continuation of the military regime and the adoption of more repressive measures gradually outmanoeuvred the politically more moderate officers. This is not to say that the moderates were politically liberal. They were equally authoritarian, but defended a shorter stay in power and a less brutal, less profound intervention in Brazilian politics and society.

The second phase extends from December 1968 to March 1974 and covers what came to be known as the '*anos de chumbo*' (literally, 'lead years', with the meaning of 'heavy years') which coincided with Brazil's so-called economic miracle. This period comprised the final months of General Costa e Silva's presidency, the Junta Militar that ruled the country for two months after Costa e Silva's withdrawal from power for health reasons in August 1969, and the whole of General Médici's presidency (1969–1974). Under AI-5 repression was at its most severe in this period. The 'hardliners' exercised power in a virtually uncontested fashion.

The third phase begins with the inauguration of General Geisel as president in March 1974. Geisel came to power with a project for *distensão* (decompression, the easing of tensions) and *abertura* (political opening) in a 'slow, gradual and safe' manner. Although Geisel was deeply authoritarian and, on several occasions, permitted the adoption of repressive measures against the opponents of the dictatorship (he was described as the '*ditador da abertura*' in one newspaper headline after his death), he successfully brought the hardliners inside the Armed Forces under control and ended the '*anos de chumbo*'.

During the fourth and final phase of military rule General Figueiredo (1979–1985), Geisel's chosen successor, continued, despite some setbacks, the slow process of political *abertura*. Though not part of the original

project, the political transition begun by Geisel in 1974 concluded with the transfer of power to a civilian president (albeit not a democratically elected president) in March 1985 and the return of the military to the barracks.

APRIL 1964–DECEMBER 1968

The 1964 *golpe* began early in the morning of 31 March with the deployment of troops of the fourth Infantry division of the military region of Juiz de Fora under the command of General Olímpio Mourão Filho from Minas Gerais towards Rio de Janeiro.¹ The Goulart administration and its supporters were slow to react, as were the ‘legalist’ factions inside the military. A call by the Comando Geral dos Trabalhadores (CGT) for a general strike in support of the government was largely ignored. On 1 April President João Goulart flew from Rio to Brasília, which had in 1960 replaced Rio de Janeiro as the Federal District, and thence to Porto Alegre, where Leonel Brizola, federal deputy for the state of Guanabara (the city of Rio de Janeiro), a former governor of the state of Rio Grande do Sul and Goulart’s brother-in-law, tried to organise a resistance movement. The president, however, chose to avoid confrontation with the *golpistas*. On 4 April Goulart left Brazil for Uruguay, and he remained in exile for the rest of his life. He died in Argentina in December 1976.

The *golpe* was welcomed not only by leading anti-Goulart politicians in Congress and the governors of Brazil’s three most important states – Carlos Lacerda (Guanabara), José de Magalhães Pinto (Minas Gerais), and Ademar de Barros (São Paulo), all opponents of Goulart and potential candidates in the presidential elections scheduled for October 1965 – but also by important sectors of Brazilian society. The business community, landowners, the Catholic Church, the press and, not least, the urban middle class had all in one way or another, directly or indirectly, stimulated intervention by the military in order to bring to an end what they saw as the *esquerdização* of Goulart’s government and the deepening economic crisis of the early 1960s. The United States, concerned that Brazil was going the way of Cuba after the overthrow of Batista in January 1959, had also supported the coup. The U.S. government had followed the Brazilian military and civilian conspiracy against Goulart closely through its ambassador in Rio de Janeiro, Lincoln Gordon, and the embassy’s military attaché, Vernon Walters, and had secretly planned to give the *golpistas* logistical support

¹ For a detailed account of the 1964 coup, see Chapter 2 in this volume.

in the event of protracted resistance on the part of Goulart's supporters – which proved unnecessary.²

Even before President Goulart left the country, the president of the Senate, Auro de Moura Andrade, had declared the presidency vacant. In accordance with the Constitution of 1946, the president of the Chamber of Deputies, Ranieri Mazzilli, took over as interim president, as he had done in August 1961 following President Jânio Quadros's resignation. Real power, however, was in the hands of the military. On 2 April, General Artur da Costa e Silva, a 64-year-old *gaúcho* who headed the Army's Department of Production and Works (which meant he had no troops under his command), notified all military commanders that, as the most senior officer in the military high command (which was not in strictly true³) he was nominating himself Commander-in-Chief of the Armed Forces, a position normally exercised by the President of the Republic. He immediately established a 'Supreme Command of the Revolution (*sic*)', consisting of the heads of the three armed forces: Brigadier Correia de Melo (Air Force), Vice-Admiral Rademaker (Navy) and Costa e Silva as the representative of the Army.

From the very beginning there were important divisions within the military. In broad terms, there were those, on the one hand, who called for the toughest possible measures against all forms of 'subversion' and favoured a long period of military rule in which the country's political institutions and political culture could be fundamentally reformed (as well as the economy stabilised). Some even believed in the utopia of the elimination of all politics. These radicals came to be known as the *linha dura* ('hard line') and gravitated around General Costa e Silva. On the other hand, there were those who followed the historical tradition of previous 'moderating' interventions by the military in Brazilian politics and defended a swift return to 'normal' political conditions (after a 'corrective intervention'). The *moderados* gathered around General Humberto de Alencar Castelo Branco, a 66-year-old *cearense*, who was Army Chief of Staff (*Chefe do Estado-Maior do Exército*) at the time of the *golpe*. This latter group of officers in which Oswaldo Cordeiro de Farias, Ernesto Geisel and Golbery do Couto e Silva were prominent, became known as *castelistas* (pro-Castelo Branco), or the 'Sorbonne' group, the latter a reference to the Brazilian War College, the Escola Superior de Guerra (ESG), founded in

² On the role of the United States in the 1964 *golpe*, again see Chapter 2, note 3 in this volume.

³ See Chapter 2, note 3 in this volume.

1949, which was an important professional and intellectual reference for them.

In general, the *castelista* officers were older, better educated and held higher posts in the military hierarchy than the more radical ‘hardline’ officers who had started their careers after the traumatic Communist revolt of 1935 (which had involved Army personnel), had gone through a long process of indoctrination during the Cold War years, and had learned that the principal role of the Armed Forces in ‘peripheral’ countries was to contain ‘internal enemies’. But labels such as ‘*castelista*’, ‘*moderado*’, ‘*duro*’ and ‘radical’, used by the actors themselves at the time and by historians and political analysts later, should not be seen as representing the fixed features of organised and coherent groups. Rather, they are best seen as Weberian ‘ideal types’ that capture the various positions of groups within the military whose membership and behaviour changed over time. For instance, in some circumstances to be labelled a ‘hardliner’ could be seen as an accusation; in others, as a compliment. Individuals took more ‘hardline’ or ‘moderate’ positions according to circumstance, although some were more consistent in their allegiances than others. And the military always demonstrated a high degree of corporate unity whenever the ‘Revolution’ itself seemed to be under ‘external’ threat from the political opposition or when internal conflicts threatened to lead to serious and permanent rupture.

No one in 1964 – military or civilian – imagined the new regime would last for over two decades. Within the military, and in the first, tense meetings between Congressional leaders, state governors and the generals, the discussion centred on how soon power would be returned to the civilian politicians. The military group around Castelo Branco favoured the election of a military president by Congress, but only to serve until the end of João Goulart’s mandate (31 January 1966). Costa e Silva argued for extending the rule of the Revolutionary Supreme Command beyond the next scheduled presidential elections (October 1965). A consensus emerged in favour of the *castelista* proposal and of Castelo Branco as president. Castelo Branco’s key supporters in the higher echelons of the military were the brothers Orlando and Ernesto Geisel, Golbery do Couto e Silva, Cordeiro de Farias, Ademar de Queirós and Nélson de Melo. He was also backed by the presidents of *Clube Militar*, the *Clube Naval* and the Escola Superior de Guerra, and by organisations such as the Federação das Indústrias do Estado de São Paulo (FIESP) and the Sociedade Rural Brasileira. Costa e Silva probably wanted the presidency himself and certainly did not want

to see Castelo Branco in that role, but he accepted a *fait accompli* in return for being guaranteed the key position of Minister of War in the new administration.

In the days immediately after the coup, politicians were slow to realise how different in nature the military intervention of 1964 was to be from all previous interventions. The ‘reality shock’ occurred on 9 April, when the Supreme Command of the Revolution issued its first *Ato Institucional* – an exceptional, ‘revolutionary’ instrument, unconstitutional, and in clear defiance of Congress. It had been drafted by Francisco Campos, who had also written the authoritarian Constitution of 1937 underpinning the Estado Novo (1937–1945). The Act significantly extended the powers of the Executive. The President, for example, could now submit constitutional amendments to Congress, which was obliged to consider them and put them to the vote within thirty days (and approval by a simple majority would suffice, contrary to the two-thirds’ rule under the 1946 Constitution). The Act also gave the president the power to declare an emergency state of siege of his own accord; and to suspend for ten years the political rights of any citizen, including those who had been elected to federal, state and municipal legislatures (a process known as *cassação*; those punished in this way therefore *cassados*). However, a date for the expiry of these exceptional powers was set: 15 June 1964.

The day following the promulgation of the ‘Institutional Act’, 10 April, saw the publication of a list of more than 100 people who were to be punished by losing their political rights for ten years. Included in this first list of *cassados* were two former presidents, João Goulart and Jânio Quadros, two former governors, Miguel Arraes (Pernambuco) and Leonel Brizola (Rio Grande do Sul), the leader of the Brazilian Communist Party, Luís Carlos Prestes, key figures in the Goulart administration, labour leaders, peasant leaders, student leaders and politicians identified by the military as belonging to the Communist, Socialist and populist-nationalist Left. Of the three parties which together had more than 80 percent of the seats in the Congress elected in October 1962 the Partido Trabalhista Brasileiro (PTB), the party of João Goulart and Leonel Brizola, suffered the heaviest losses. Eighteen of its 116 federal deputies were included in the first list of *cassados*. The Partido Social Democrático (PSD), the dominant party in the postwar period which had supported Goulart at the beginning but had increasingly abandoned him in the later stages of his administration and for the most part supported the coup, lost only 3 of its 118 deputies. The União Democrática Nacional (UDN), the main opposition party in

the postwar period, with 91 seats in Congress, and the principal civilian cheerleader for the *golpe*, emerged unscathed. Many others would lose their mandates in the following months. Moreover, on 11 April, 122 military officers, including some 40 generals, were transferred to the reserve. In the weeks that followed further lists of officers and men with links to the previous regime or involved in protests and demonstrations during the Goulart period were issued. During April several hundred joint military and military police committees (IPMs) set out to identify individuals considered guilty of subversive activities. In the end some 3,000 to 5,000 people, approximately half of them in the military, lost their mandates, were cassados or were forced to retire from government posts. Many more were arrested and imprisoned without charge, and in some cases seriously mistreated.

The Institutional Act of 9 April had also determined that on 11 April there would be the indirect election of a new president. Standing without opposition, General Castelo Branco was duly elected by an already purged Congress to serve until the end of January 1966. Three hundred and sixty-one members of Congress, including all the UDN and PSD deputies and more than seventy belonging to the PTB, voted for Castelo Branco and, as his Vice-President, José Maria Alkmin, a civilian politician from the PSD. A new president would be elected by direct popular vote on 3 October 1965 when eleven of Brazil's twenty-two state governors were also due to be elected. President Castelo Branco in his address to Congress promised to hand over power to his successor 'legitimately elected by the people through free elections' on 31 January 1966.

The military in 1964, in contrast to 1937 when it supported Vargas in establishing the Estado Novo dictatorship, sought to maintain some elements of the existing political system. The 1946 Constitution was not immediately abrogated. Congress and state assemblies were not closed, although they had no real power effectively to oppose the military government. Political parties, including opposition parties, were not dissolved, although 'anti-revolutionary' elements were purged. Future elections were not cancelled. Something more than a mere façade of representative democracy was maintained, thus avoiding at this stage an open military dictatorship.

There are several possible explanations for this distinctive feature of the post-1964 Brazilian military regime compared to other contemporary experiences of military rule in South America (like, for example, Chile after 1973 or Argentina after 1976). First, the Brazilian military always

perceived themselves as 'democrats'. During the Second World War a Brazilian Expeditionary Force, the FEB (in which Castelo Branco himself and other *castelistas* had played a prominent role) had fought in Italy for democracy against fascism. At the end of the War the military had overthrown the Vargas dictatorship and established the Liberal Republic. In Cold War terms the military always saw Brazil as part of the liberal-capitalist-democratic world. The 1964 coup, as we have seen, was aimed at restoring democracy which its leaders claimed was being undermined by Goulart. Furthermore, civilian political support for the military coup and subsequent military regime came primarily from the UDN which had been born in opposition to the Vargas dictatorship and which, despite its *golpista* inclinations in the 1950s and early 1960s in its desperation to avoid permanent opposition, always adhered to a liberal democratic ideology (albeit of a distinctly elitist kind). Keeping open some limited channels of political participation through parties, including opposition parties, Congress and state assemblies also offered, on the one hand, a useful safety valve and, on the other hand, a means of social and political control. It meant that, albeit with varying degrees of *abertura* (opening) and *fechamento* (closure), the political system retained some room for dialogue and negotiation with the 'political class'. This was important not only for the legitimisation of the regime but also for the government of such an extremely large and complex country.

Finally, the military was concerned to maintain a good image internationally. The establishment of an overt military dictatorship following the overthrow of a constitutional government risked the loss of external credit and loans necessary for economic development from the multilateral agencies, Europe, and even the United States which had supported and approved the *golpe*. Moreover, Brazil was not Spanish America. During the Empire, the First Republic and the Liberal Republic after the Second World War, Brazilian elites had always like to portray the government and politics of their country as very different from those of their Spanish American neighbours. After the 1964 *golpe* and the establishment of a military regime, there was a danger, in terms of external image, that if all forms of representative government were abolished Brazil, the largest and most populous country in the region, would be regarded as no different from what Castelo Branco called a Spanish American *republiqueta*, that is to say, a 'banana republic'.

General Humberto Castelo Branco was inaugurated as president on 15 April 1964 with a promise to restore 'democratic normality', stabilise

the economy and promote economic growth.⁴ His cabinet was a mixture of senior military, technocrats, and UDN and PSD conservative politicians. Among the leading military figures, besides Artur da Costa e Silva (War), were Ernesto Geisel (Casa Militar), Juarez Távora (Transport) and Cordeiro de Farias (Ministério Extraordinário para a Coordenação dos Órgãos Regionais, later Ministério do Interior). Civilian ministers included Luís Viana Filho (Casa Civil), Milton Campos (Justice), Vasco Leitão da Cunha (Foreign Relations) and Flávio Suplicy de Lacerda (Education). In charge of economic management were Otávio Gouveia de Bulhões (Finance) and Roberto Campos, who took over the Ministry for Economic Planning and Coordination.

Castelo Branco intended to govern within the framework of the Institutional Act of 9 April 1964; that is to say, the period in which the president exercised extraordinary powers, including the right to deprive citizens of their political rights, would expire on 15 June, and direct elections for president and governor in eleven states would take place in October 1965. The hardliners in the military, on the other hand, wished to extend the deadline for the suspension of political rights, to postpone the gubernatorial elections, and to extend Castelo's mandate beyond January 1966. In their eyes, it would be far too early to declare the 'Revolution' fulfilled and withdraw to the barracks.

The leading candidates for the presidential elections scheduled to take place in October 1965 were generally thought to be former president Juscelino Kubitschek (PSD), Carlos Lacerda (UDN) and Ademar de Barros (Partido Social Progressista, PSP). (Had his rights not been suspended, Leonel Brizola would have probably been candidate for PTB.) Kubitschek was perhaps the favourite. The suspension of Kubitschek's political rights at the eleventh hour as the deadline for *cassações* approached, and upon Costa e Silva's personal insistence, was a clear indication that conflicts within the military regime had not yet been resolved and that the changes to the rules of the political game would be more profound than the civilian supporters of the coup had originally imagined. Many saw in the *cassação* of Kubitschek a move to benefit Carlos Lacerda. This Castelo Branco explicitly denied.

On 13 June 1964 a new list of *cassados* was published which Castelo Branco intended would be the last. On that same day, however, the regime created the Serviço Nacional de Informações (SNI), an intelligence service

⁴ On the economic policies of the Castelo Branco administration, see Chapter 5 in this volume.

responsible directly to the President and headed by Colonel Golbery do Couto e Silva. Golbery, a 52-year-old *gaúcho* with an interest in strategy and geopolitics, had worked at the ESG during the 1950s and from his base in the Instituto de Pesquisas e Estudos Sociais (IPES) had played a key role in the destabilisation of the Goulart administration. (The SNI would gradually increase its influence over the military regime, and Golbery would later recognise, perhaps not entirely seriously, that he had ‘created a monster’.) Also in June a new law made strikes practically impossible. And in July Congress approved a constitutional amendment which extended Castelo Branco’s mandate from 31 January 1966 to 15 March 1967, with the next presidential elections (still expected to be direct at this stage) postponed from October 1965 to October 1966. The primary justification for this was that Castelo Branco had not been allowed sufficient time to implement both the political reforms that were necessary and the *Programa de Ação Econômica do Governo* (PAEG) aimed at taming inflation and restoring economic growth. In November, the government intervened in the state of Goiás and removed PSD governor Mauro Borges, who was accused of supporting subversive activities. And a law (the *Lei Suplicy*) was passed restructuring and containing the political influence of the União Nacional dos Estudantes (UNE).

In March 1965, however, against the wishes of the hardliners, the decision was taken to go ahead with direct elections for eleven state governors on 3 October. These elections produced the most serious military–political crisis since the coup, came close to toppling Castelo Branco, and virtually guaranteed Costa e Silva the presidential succession. In this first electoral test since the coup eighteen months earlier, candidates backed by the regime, almost all of them UDN politicians, were defeated by the opposition in four states, including the two most important, Guanabara and Minas Gerais, both of which had previously been held by UDN politicians who had strongly supported the coup, Carlos Lacerda and Magalhães Pinto. Guanabara was won by Francisco Negrão de Lima (PTB), former Minister of Justice, (unelected) mayor of Rio de Janeiro when it was the Federal District and Minister of Foreign Relations, Minas Gerais by Israel Pinheiro (PSD), the first (unelected) mayor of Brasília, the new Federal District. Both were old *getulista* politicians with close ties to former president Juscelino Kubitschek, who significantly returned to Brazil from exile in Paris on the day of the elections.

Considering opposition victories in Guanabara and Minas Gerais a threat to the Revolution, the more radical military officers immediately

began to press for a political *fechamento*. On 6 October there was a threat of a revolt in the Vila Militar, the largest troop concentration in Rio de Janeiro. As Minister of War Costa e Silva addressed the rebels. They should not be concerned, he said, that a few ‘little men’ (*homúnculos*) had won an election the military had permitted, purposefully tolerated, he emphasised. After eighteen months, he went on, there was only one problem facing the ‘Revolution’:

[...] containing those who are excessively revolutionary (applause). We do not fear counter-revolutionaries [...] (applause) What concerns us is actually the enthusiasm and eagerness of this younger generation that yearns for *more* revolution. But I guarantee you... my young officers, that we know where we stand. Our current commanders, as I said yesterday and repeat today, are as revolutionary as the young revolutionary officers (applause). I guarantee you that we will not return to the past (ovation).⁵

A conflict had been going on for several months between the more radical military in charge of the IPMs and the Supremo Tribunal Federal (STF, Brazil’s Supreme Court). The STF was granting *habeas corpus* to people arrested and held without charge by the military (e.g., the former governor of Pernambuco state, Miguel Arraes). The president of the Supreme Court had gone so far as to say to the press that the military had no right to proclaim themselves Guardians of the Nation. It was against this background that, on 22 October, at a lunch following major army manoeuvres in the interior of São Paulo state, a lunch attended by President Castelo Branco and the entire high command of the Army, Costa e Silva made an improvised speech which included the following passage:

When the Jangos and the Brizolas sought to subvert military discipline, close the National Congress and stain the reputation of judges, the Army took to the streets to re-establish order, discipline, decency, and austerity in government. We did this certain that we were not defending either parties or institutions or the interests of specific groups, but the integrity of the nation (*integridade da pátria*) (applause). Now we are to be sent back to the barracks by the president of the Supremo Tribunal Militar (*sic*) But why did we leave the barracks? We left the barracks at the request of the people, at the request of society which saw itself threatened (applause). And we will only go back to the barracks when the people so determine (ovation). And the people still want us, with our weapons at the ready to prevent this country returning to subversion, corruption, indiscipline and international disrepute (ovation)... Gentlemen, I did not want to over-react... but offended, angered... I cannot ignore this affront, come what may (cheers). Some have said elsewhere that the President of the Republic is weak politically. To us it doesn’t matter! He may be weak politically, but he is strong militarily! (ovation).⁶

⁵ Arquivo Costa e Silva, CPDOC, Fundação Getúlio Vargas, Rio de Janeiro.

⁶ *Ibid.*

In spite of a recommendation from Ernesto Geisel, head of the president's *Casa Militar*, that he should dismiss Costa e Silva, Castelo Branco chose not to do so, fearing a worsening of internal conflict within the military. Moreover, less than a week later, agreeing with hardliners on the need for tough measures, he issued Institutional Act no. 2 (27 October 1965). Besides giving the president the power to suspend Congress, to govern by decree, to declare a state of siege, to cancel the mandates of elected politicians and to suspend the political rights of opponents of the Revolution, the Act made the presidential elections scheduled for October 1966 *indirect* (by Congress acting as an Electoral College). Three months later Institutional Act no. 3 (5 February 1966) made the elections for the eleven state governorships due to be held in October 1966 also *indirect* (by state assemblies – in practice to be appointed by the military government). And mayors of state capitals and cities considered important for national security would in future be appointed by state governors. There would be no direct vote for any significant executive office in Brazil for the next sixteen years: that is, until the direct elections for governor which the military regime permitted in November 1982.

Institutional Act no. 2 (AI-2) also remodelled the political party system. Despite the 100 percent support of the UDN (at least until Lacerda gave up hope of succeeding Castelo Branco as president) and of most PSD and even some PTB deputies and senators (the so-called *Bloco Parlamentar da Revolução* which could usually be relied on to ratify measures taken by the executive), the military's attempt to work with the political parties of the former regime had never provided it with the guaranteed stable and permanent majority in Congress it required. Many of the measures contained in Institutional Act no. 2 would probably have been rejected if put to Congress. In the Electoral Code of 15 July 1965 the government had already signalled its intention of placing restrictions on the multiparty system: parties would in future have to have secured three percent of the vote in the previous election distributed in eleven states, at least two percent in each, and at least twelve deputies from at least seven states. Hypothetically, of the thirteen parties with seats in the Chamber of Deputies elected in 1962 (nine of them with seats in the Senate) only the big three, the PSD, the UDN and the PTB, the Partido Social Progressista (PSP) and, marginally, the Partido Democrata Cristão (PDC), which had elected twenty deputies in 1962, would survive under these new rules. The timing of the introduction of any change was left open, however, and in fact the new code had not been enforced in the October 1965 gubernatorial elections.

These elections, however, were to be the last contested by the parties of the Liberal Republic. AI-2 dissolved all political parties. And a month later, in November 1965, Complementary Act no. 4 established new rules for the formation (within forty-five days) of new parties from the existing members of Congress (409 deputies, 66 senators). Each party would have a minimum of 120 deputies and 20 senators. This meant a maximum of three parties. In practice there would be only two (it would be a *sistema bipartidário*) because 257 deputies (62.8 percent) and 45 senators (69.2 percent), an overwhelming majority of both houses, affiliated themselves to a newly created progovernment party, the Aliança Renovadora Nacional (ARENA), leaving a minority (149 deputies and 20 senators) to form an opposition *Movimento Democrático Brasileiro* (MDB). The minimum number of MDB senators was only achieved by the direct intervention of President Castelo Branco, who ‘convinced’ PSD senator Rui Carneiro who was inclined to join ARENA to join the opposition instead. ARENA and MDB – it is interesting to note that neither adopted the name ‘party’ – came formally into existence on 15 March 1966.

From the parties in the (purged) 1963–1966 Congress, 90 percent of UDN and PSP deputies, two-thirds of PSD and PDC and one-third of PTB deputies joined ARENA in the Chamber, two-thirds of the PTB (from which radicals had of course already been removed) and one-third of the PSD and PDC joined the MDB. In the Senate all but one UDN senator, 80 percent of PSD senators and one-third of PTB senators joined ARENA; two-thirds of the PTB senators joined the MDB. See Table 3.1 and 3.2. The fact that the pre-1964 parties did not line up clearly for or against the regime, for ARENA or for the MDB, reflects their lack of ideological definition and internal discipline, the heavy influence of personalism, clientelism, and not least regional interests in all of them.

With the promulgation of AI-2, Castelo Branco, who had never had the support of the *linha dura*, lost the support of the moderate, more liberal elements in the military – and of the civilian *udenista* and *pessedista* politicians – and became ever more politically isolated. The hardliners had clearly gained the upper hand. And Costa e Silva’s position as their leading candidate for the presidential succession had been considerably strengthened. The presidential succession – not only in 1966, but throughout the military regime – was the point at which the disputes and tensions inside the military were thrown into sharp relief. Costa e Silva announced his candidacy publicly at the beginning of January 1966, counting on solid support from the barracks. The *castelista* group – Geisel, Golbery and Cordeiro de Farias,

Table 3.1. *Composition of the 1963–1966 Chamber of Deputies after the Party Reform of 1965–1966*

Origin	ARENA		MDB		Nonparty	Total
	Seats	%	Seats	%		
PSD	78	64.5	43	35.5	0	121
PTB	38	32.8	78	67.2	0	116
UDN	86	89.6	9	9.4	1	96
PSP	18	85.7	2	9.5	1	21
PDC	13	68.4	6	31.6	0	19
PTN	8	66.7	4	33.3	0	12
PRP	5	100.0	0	0.0	0	5
PL	3	75.0	0	0.0	1	4
PR	4	100.0	0	0.0	0	4
PRT	2	50.0	2	50.0	0	4
MTR	0	0.0	3	100.0	0	3
PST	2	100.0	0	0.0	0	2
PSB	0	0.0	2	100.0	0	2
Total	257	62.8	149	36.4	3	409

Source: Rogerio Schmitt, *Partidos políticos no Brasil (1945–2000)* (Rio de Janeiro, 2000), p. 35, table 3.

Table 3.2. *Composition of the 1963–1966 Senate after the Party Reform of 1965–1966*

Origin	ARENA		MDB		Total
	Seats	%	Seats	%	
PSD	17	81.0	4	19.0	21
PTB	6	35.3	11	64.7	17
UDN	15	93.8	1	6.3	16
PSP	2	100.0	0	0.0	2
PTN	1	50.0	1	50.0	2
PL	2	100.0	0	0.0	2
PDC	1	100.0	0	0.0	1
PR	1	100.0	0	0.0	1
MTR	0	0.0	1	100.0	1
S/Partido	0	0.0	1	100.0	1
Total	45	69.2	20	30.8	65

Note 1: The Senate seat for Goiás was left empty after the cassação of Juscelino Kubitschek in 1964.

Note 2: The party composition of the two houses of Congress in late 1965 was not exactly the same as in 1963 following the elections of October 1962 (see Chapter 2 in this volume). Brazilian legislation allowed deputies and senators to change their parties after their election. Moreover, although those whose mandates had been cancelled by the military in the purges which followed the golpe were replaced by their suplentes (alternates), the extent of party alliances and coalitions in the 1962 elections was such that suplentes were not necessarily of the same party.

Source: Schmitt, op. cit., p. 35, table 4.

among others – did not manage to articulate an alternative military candidate, and ended up accepting a *fait accompli*. In May 1966, the ARENA national convention confirmed the names of Costa e Silva for president and the *mineiro* ex-UDN politician Pedro Aleixo for vice-president. In the following months Costa e Silva travelled extensively throughout Brazil, acting as if he were engaged in an electoral campaign, projecting the image of a popular leader, 'Seu Artur'. On one of these trips he escaped a bomb attack that killed two people as he disembarked at Guararapes airport in Recife. It was the first such attack (*atentado*) against the military regime. The security services were never able to identify the authors of the attack. There was a suspicion, later confirmed, that it was perpetrated by two radical members of Ação Popular (AP), a progressive Catholic organisation founded in 1962, *acting alone*. The PCB always claimed that it was a provocation by right-wing military officers.

The MDB was uncertain about the role it was expected to play. It was an opposition party with few really committed opponents of the military regime. It was mainly in the hands of ex-PSD deputies who had supported the coup. The ex-PTB deputies who had retained their mandates lived in fear that they would lose them if they stepped too far out of line. As early as June 1966 the MDB's first national president Oscar Passos, a senator from Acre (ex-PTB, but significantly a general in the army reserve), suggested self-dissolution. (This was an idea that was to surface from time to time in the following years.) As far as the presidential succession was concerned, some favoured giving the party's support to Costa e Silva, some looked for a high-ranking officer who might agree to be the party's candidate in opposition to Costa e Silva. Cordeiro de Farias and Mourão Filho refused to play the role. General Amaury Kruel, the commander of the Second Army in São Paulo, a former supporter of Goulart whose eventual support for the 1964 *golpe* had proved decisive, at least considered the proposal – for which he was dismissed from his post. The MDB decided, in the end, to abstain in the forthcoming 'election'.

On 3 October 1966, Costa e Silva, the only candidate, was elected president by Congress, with the unanimous support of ARENA, though for a fixed four-year term only commencing March 1967. (Fixed-term presidencies, though of varying length, would be a distinctive feature of the Brazilian military regime – unlike, for example, the Chilean regime of General Pinochet. Internal institutional arrangements were established for reviewing potential candidates and limiting the presidential term allowed the military to manage internal conflicts and make it easier for different

factions to coexist.) The election of Costa e Silva was, nevertheless, a decisive moment, a clear demonstration of the radicalisation of the military regime. In protest the MDB (with one exception) walked out of the Chamber *en masse* when the vote took place. At the same time eleven governors, all of them members of ARENA, were indirectly elected by state assemblies. Again the MDB decided not to put up candidates due to the threat of losing their political rights. In the state of São Paulo there was no election: Ademar de Barros had been deprived of his political rights in June and Castelo Branco simply appointed Laudo Natel governor. Ademar retired from politics and died in 1969.

In the run-up to the legislative elections the following month Castelo Branco intimidated the opposition by invoking AI-2 to cancel the mandates and political rights of six MDB deputies, including the party's deputy leader Doutel de Andrade and many more state deputies. On 20 October the military surrounded the Congress building in Brasília and closed the legislature for a month. Severe restrictions (e.g., the prohibition of political rallies) were placed on campaigning by the MDB which in most of the country had virtually no organisation. The media was almost universally hostile to the MDB, giving extensive coverage to its internal uncertainties and dissensions.

The elections for 22 senators (a third of the Senate), 409 federal deputies (the whole of the Chamber of Deputies) and 1,076 state deputies on 15 November 1966 were the first Congressional and state assembly elections to be held under the military regime and the first in the history of the Brazilian republic under a two-party system. The electorate numbered more than 22 million voters, of whom 17.3 million (more than 77 percent) cast their ballots. Overall, ARENA won an impressive victory, electing eighteen senators (the MDB elected four); 277 of the 409 federal deputies; and 731 of the 1,076 state deputies. The abstention rate (23 percent) was only slightly higher than normal; the number of voters voting *branco* (blank) and *nulo* (spoiled) – 14.2 percent and 6.8 percent, respectively, a total of 3.6 million votes – was much higher. Why vote positively for a Congress that had been closed down by the military? Why vote for an ineffective and unconvincing 'opposition' MDB? The MDB could only secure 28.4 percent of the valid vote for the Chamber (that is to say, in legislative elections the total vote for all candidates plus blank ballots, but excluding spoiled ballots), 34.2 percent for the Senate and 29.2 percent for the state assemblies. It was a crushing defeat. However, the MDB received a majority of the votes for the Chamber of Deputies in the states of Guanabara,

Rio de Janeiro and Rio Grande do Sul, where it had some sort of local organisation based largely on old PTB structures, and only lost narrowly in São Paulo (3.2 million votes to 2.7 million). It was a modest platform from which to build for the future.

Before leaving office, besides introducing new national security legislation and new legislation for the control of the press, Castelo Branco also had a new Constitution drafted that consolidated the Institutional Acts and the several amendments to the Constitution of 1946 introduced by the military since April 1964, including the indirect election of the President of the Republic. (There was no reference to future elections of state governors, direct or indirect.) Through a fourth Institutional Act (AI-4), Congress (the 1963–1966 Congress) was quickly convened to approve the new Constitution. And despite criticism even from the leaders of ARENA that the majority of the proposed amendments to the Constitution were simply ignored, it was approved on 24 January 1967 – to go into effect the day following the inauguration of the new president.

General Artur da Costa e Silva was inaugurated as president on 15 March 1967, promising to govern for the people and to respect the legislative branch of government. His cabinet was significantly more military-dominated than that of Castelo Branco: besides the three military ministers (General Lira Tavares, Army; Admiral Rademaker, Navy; Brigadier Sousa e Melo, Air Force), the SNI (General Médici) and the Casa Militar (General Jaime Portela), the military also occupied the Ministries of Industry and Commerce, Interior, Mines and Energy, Transport and Employment. Among civilians, the most notable names were José de Magalhães Pinto (Foreign Relations), Luís Antônio da Gama e Silva (Justice) and Antônio Delfim Neto (Finance). No senior member of Castelo Branco's cabinet was retained by Costa e Silva. Geisel and Golbery, for example, were appointed to the Superior Tribunal Militar and Tribunal de Contas da União, respectively, well away from any military responsibilities or political decision-making. (Under the Médici administration that followed Geisel became President of Petrobras, the state-owned oil company. Golbery's political ostracism continued and he went to the private sector as President of Dow Chemicals.) Cordeiro de Farias, who had passed to the reserve in 1965, left public life. Castelo Branco died in plane crash three months after leaving office.

As it became evident that with Costa e Silva in the presidency the military regime was likely to remain in power for longer than originally expected and was moving decisively in a more authoritarian direction,

stronger opposition emerged, not principally from the MDB, at least not until the second half of 1968, but from civilian politicians united under the banner of the Frente Ampla (Broad Front), and from various sectors of civil society – workers, the Church, the student movement, and eventually armed revolutionaries. The Frente Ampla was launched at the end of October 1966. Its principal driving force and spokesman was Carlos Lacerda. On 19 November Juscelino Kubitschek joined Lacerda in signing the Declaration of Lisbon. In the following March they issued a Manifesto in favour of a return to political ‘normality’. But the Frente Ampla soon saw its hopes for political liberalisation through the revision of some of the ‘revolutionary’ acts frustrated.

In August 1967, Lacerda, who had been particularly critical of the Costa e Silva administration, was banned from television. Kubitschek, who was systematically persecuted for his participation in the Frente, kept a low profile. As for the MDB, only 13 of its 133 federal deputies chose to join the Frente Ampla, the remainder claimed that it was primarily a springboard for Lacerda’s future attempt to become president. Lacking political space for growth, Lacerda took the risky step of turning to former President João Goulart, in exile in Uruguay. They signed the so-called Pact of Montevideo (24 September 1967). Lacerda hoped that Goulart’s support would facilitate the adherence of workers and popular forces in general to the Front, but it did not happen. Brizola and Arraes, for example, refused to join. It was March 1968 before the Frente Ampla was able to organise a significant public rally – in São Caetano do Sul, São Paulo. In April 1968, the Minister of Justice, Gama e Silva, declared it illegal and banned any news coverage about it, or any of its members, in the media.

With the possibilities for opposition within the political system significantly reduced, opposition to the regime began to express itself mainly through social movements. The ‘progressive’ wing of the Catholic Church, a minority within the Church as a whole but relatively important in the National Conference of Bishops of Brazil (Conferência Nacional dos Bispos do Brasil, CNBB), launched a series of manifestos appealing for nonviolent opposition to the regime and denouncing the imprisonment of priests and the general lack of freedom in the country. At the same time, there was an attempt to reorganise the workers’ movement, with the first strikes since 1964 taking place in Contagem (Minas Gerais) in April and Osasco (São Paulo) in July 1968. These were mostly motivated by pay demands, but they mobilised some 26,000 workers and led to intervention by the police. The Osasco strike was more obviously political than that in Contagem,

and there was active participation by students. Many artists and intellectuals also opposed the regime through political satire, theatre, and protest songs. At a music festival in 1968, composer and singer Geraldo Vandré presented the song that would eventually epitomise this historical period, *Caminhando – para não dizer que não falei de flores*, which began with a reference to the student protests, continued with a harsh criticism of the Armed Forces and closed with an appeal for action: ‘*Quem sabe faz a hora/ Não espera acontecer*’ (meaning ‘Act now. Don’t wait’).

The most effective opposition to the military regime in 1968 came from the students. Acting underground, the student movement organised several protests and demonstrations similar to those elsewhere around the world that same year. When a student, Édson Luís de Lima Souto, was killed by the military police in the centre of Rio on 28 March 1968 during one of these events, multitudes gathered both for the funeral and the seventh-day mass, leading to further confrontation and tough repressive measures by the police. On 21 June, following the police invasion of a student assembly at the Federal University of Rio de Janeiro there was confrontation on the streets between the police and the students, leaving four dead (three students and one policeman) and several wounded in what became known as ‘Bloody Friday’ (*Sexta-Feira Sangrenta*). On 26 June, students with the support of professors, intellectuals and artists organised in Rio de Janeiro the largest single act of opposition to the military regime since 1964: the ‘March of the 100,000’ (*Passeata dos Cem Mil*). This was followed by student demonstrations in other states, and on 4 July another March in Rio. On 5 July, Gama e Silva prohibited parades of any kind, authorising state governors to take any necessary preventive action. In response, the students adopted the new tactic of ‘*comícios relâmpagos*’, improvised mass meetings concluded before the police had time to arrive on the scene. The high point was to be the Thirtieth Congress of the now banned National Union of Students (UNE), at a *fazenda* (farm) near Ibiúna, São Paulo on 12 October 1968. However, news of the meeting was leaked to the police, who intervened and arrested some 1,000 people.

In the meantime, a number of individuals and groups on the Left had opted for armed struggle as the only viable strategy for overthrowing the military regime. And Cuba was now offering assistance with military training and some financial support for the revolutionary struggle in Brazil. In October 1966 – the month in which Che Guevara left Cuba for Bolivia, his final battleground – a group of fourteen Brazilian militants reached

Serra do Caparaó (at the border dividing the states of Minas Gerais and Espírito Santo) with the purpose of establishing a guerrilla *foco*. They were captured by the police in April 1967 before their operations began. In July and August 1967, a conference of the Organisation of Latin American Solidarity (OLAS), dedicated to the export of revolution to Latin America, met in Cuba. Present at the meeting was the former Communist deputy Carlos Marighella, who was seen by the Cuban leadership as a key figure for the advancement of the revolution in Brazil. Towards the end of 1967, and in the course of the following year, a number of senior members of the PCB besides Marighella broke with the party to form urban-based guerrilla movements. They were eventually joined by many leaders of the student movement. The most notable of these movements were Ação Libertadora Nacional (ALN) led by Marighella and Joaquim Câmara Ferreira, Vanguarda Popular Revolucionária (VPR), Comando de Libertação Nacional (COLINA) and Partido Comunista Brasileiro Revolucionário (PCBR) led by Mário Alves, Apolônio de Carvalho and Jacob Gorender. Some militants joined the PCdoB which had split from the PCB in 1962.⁷ The only 'success' of these armed movements in 1968 was the assassination in October in São Paulo, of a U.S. Army Captain Charles Chandler, a veteran of Vietnam, accused of belonging to the CIA, by members of VPR and ALN.

It was not, however, the emergence of armed revolutionary groups which triggered the definitive shift to the Right within the military regime at the end of 1968 (although it was certainly a factor), but a speech by a young MDB deputy from Guanabara, Márcio Moreira Alves, in Congress. No longer the sole channel of opposition to the military regime, the MDB had hesitated for more than a year before demonstrating some support for the Frente Ampla. Following its closure in April 1968, and responding to the growing opposition among sections of civil society, the MDB had become more somewhat more confident and, in the case of the so-called '*grupo dos imaturos*' (young deputies elected for the first time in 1966), even reckless. On 29 August the police had invaded the campus of the University of Brasília, possibly prompted by General Portela in the Casa Militar, hoping precisely to provoke the reaction from Congress that followed and thus providing the excuse the hardliners needed to close it down. On 2 September, Moreira Alves spoke in the Chamber of Deputies against the

⁷ See Chapter 2, note 22 in this volume.

invasion and more generally against continued acts of repression by the military:

‘When will the troops stop shooting people on the streets? . . . When will the Army stop being a sanctuary for torturers?’⁸

Moreira Alves closed his speech by encouraging people to boycott the upcoming 7 September, Independence Day, annual festivities.

Moreira Alves’s speech, which initially went unnoticed, slowly became the focal point for the expression of military dissatisfaction with the increase in the level of public criticism of, and opposition to, the regime. On 13 September, ignoring the concerns expressed by leading politicians in ARENA, the government invoked Article 51 of the 1967 Constitution (AI-2 having expired in March 1967) and requested Congress to initiate a formal inquiry into the conduct of Moreira Alves (and another federal deputy, Hermano Alves, the author of a series of allegedly defamatory articles in the *Correio da Manhã*), to waive their parliamentary immunity and to authorise a judicial process against them. After intense negotiations over several weeks between members of Congress and the government, the request was finally denied on 12 December – by 216 votes to 136 votes, triggering a major political–military crisis.

In the face of the negative decision by Congress in the Moreira Alves case, President Costa e Silva gathered together the National Security Council, put the Armed Forces on alert, and the next day, 13 December 1968, issued Institutional Act no. 5 (AI-5). This act, the toughest of the entire military period, conferred almost absolute powers on the President of the Republic. He could issue law-decrees, decree a state of siege without prior Congressional authorisation, intervene in states and municipalities, remove elected politicians, dismiss or retire officers of the Armed Forces and the various state military police forces, or deny any citizen his or her political rights. The Act suspended constitutional guarantees for the judiciary and the right of *habeas corpus* (that is to say, the rule of law), and established military tribunals to judge crimes committed by ordinary citizens against national security. A new press law further tightened censorship of the media. Furthermore, Congress was closed for an unspecified period. Several state assemblies, including those of Guanabara, Rio de Janeiro, São Paulo and Pernambuco, and some municipal councils, were also closed. AI-5,

⁸ Quoted in Ronaldo Costa Couto, *História indiscreta da ditadura e da abertura. Brasil: 1964–85* (Rio de Janeiro, 1999), p. 94.

unlike AI-1 and AI-2, had no time limit. (It was to remain in force for ten years.) However historians choose to characterise the military regime from April 1964 to December 1968, Brazil was now unquestionably and uncompromisingly a military dictatorship.

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Institutional Act no. 5 (AI-5) was ‘a coup within the coup’. The military abandoned democratic respectability. The attempt to establish new political institutions under the 1967 Constitution – the ‘institutionalisation’ of the ‘Revolution’ – collapsed. By suspending the rule of law, and especially *habeas corpus*, AI-5 opened the way for even more severe repression of the opposition. Brazil entered ‘*os anos de chumbo*’, whose salient features included not only censorship and *cassações* but the imprisonment, torture and ‘disappearance’ of political prisoners.

At the end of December 1968 Márcio Moreira Alves, Hermano Alves and a dozen more MDB federal deputies were *cassados*. By the end of January 1969 another forty-six deputies and two senators, and by the middle of the year a total of ninety-two deputies and four senators, had been *cassados*, the overwhelming majority in the MDB, and especially those with links to the old PTB. The MDB lost 45 percent of his members in Congress, including its leader in the Chamber, Mário Covas, more than a dozen other leading figures, half of its national executive and many of its elected representatives in state assemblies and municipal councils. The Judiciary also suffered purges, with three distinguished *ministros* (judges) of the Supremo Tribunal Federal (Victor Nunes Leal, Hermes Lima and Evandro Lins e Silva) and one of Superior Tribunal Militar (General Pery Constant Bevilacqua) being retired. The president of the STF, minister Gonçalves de Oliveira, resigned in protest. (Under AI-6, promulgated in early 1969, the number of judges in the Supreme Court was reduced from sixteen to eleven, and its powers were curtailed.)⁹ More than five hundred university professors, journalists, diplomats and leading figures in Brazilian cultural life lost their political rights and their jobs, many of them driven into exile. AI-5 also provided the administration with the opportunity to punish those army officers who, though defenders of the ‘Revolution’,

⁹ On the judiciary under the military regime, see Renato Lemos, ‘Poder judiciário e poder militar (1964–69)’, in Celso Castro, Hendrik Kraay e Victor Izecksohn (eds.), *Nova história militar brasileira* (Rio de Janeiro, 2004).

were in one way or another a nuisance to the regime. Colonel Francisco Boaventura Cavalcanti, for example, accused of encouraging ARENA deputies in Congress to resist the punishment of Moreira Alves, was retired from active duty. General Moniz de Aragão, who had accused Costa e Silva of favouring friends and family in the distribution of government posts, of turning a blind eye on government corruption and of not being energetic enough in combating subversion, was removed from his post. Finally, all state police forces were brought under the control of the Army Minister.

Against this background of increased repression, a good part of the opposition became radicalised. It would be wrong to suggest that armed opposition emerged *only* in reaction to the hardening of the regime. As we have seen, some groups on the Left had already chosen this path. But after the publication of AI-5, Ação Libertadora Nacional (ALN), the Partido Comunista Brasileiro Revolucionário (PCBR), the Vanguarda Popular Revolucionária (VPR), now led by Carlos Lamarca, a captain in the fourth Infantry Regiment in São Paulo who deserted in January 1969, and the Comando de Libertação Nacional (COLINA), which in September 1969 merged with the VPR as the Vanguarda Armada Revolucionária (VAR-Palmares), became more firmly committed to a strategy of armed revolutionary struggle against the military dictatorship, mainly through urban guerrilla actions.¹⁰ As Marighella wrote in his *Mini-manual do guerrilheiro urbano* (1969):

Today, to engage in acts of violence, to be a 'terrorist', ennobles any decent person because it is an act worthy of a revolutionary engaged in the armed struggle against the shameful military dictatorship and its atrocities.

Who were the people who became involved in armed and clandestine activities against the regime, and why? There is no entirely complete mapping of the internal demography of these groups, nor of their motivations. Elio Gaspari estimates that at the beginning of 1969 there were probably a total of some eight hundred people engaged in armed struggle across the spectrum from the ALN to the PCBR.¹¹ A study of some five hundred militants in the hands of the military throughout Brazil in 1970 showed 56 percent were students or people who had recently been students with

¹⁰ We are grateful to Mário Magalhães for information on the armed revolutionary Left in this period.

¹¹ Elio Gaspari, *A ditadura envergonhada* (São Paulo, 2002), p. 352. The Director of the CIA, Richard Helms, in May 1970 claimed the number of 'terrorists' was never more than 1,000. Colonel Alberto Brilhante Ustra, the head of the São Paulo DOI, put the number involved in the armed struggle at 1,650.

an average age of twenty-three; 20 percent were women (26 percent in Rio de Janeiro, 11 percent in the North East, less than 2 percent in the South)¹²; none were illiterate; none were desperately poor; and very few were black. Thus, all the evidence points to a large percentage of young, male students in the ranks of the armed opposition. They belonged to the urban middle class and attended good schools and universities. Most of them had not experienced the intense political mobilisation in the period immediately before the 1964 coup. For this generation, the Communist Party was seen as incompetent and 'reformist', no longer 'revolutionary'. The revolutionary road to power was the unquestionable goal of political activity. After AI-5, several student leaders saw involvement in the various movements of the revolutionary Left, which had ideological differences but agreed on the need for armed struggle, as the only way to remain politically active in opposition to the military regime. Thus, although the regime had managed to clear the streets of students by the end of 1968, it pushed many of them into clandestine, armed opposition.

If the early operations of these groups – such as robbing banks and stealing weapons from military deposits – proved relatively easy since security was so lax, this soon changed. The forces of repression improved their methods and began to have much more success against the urban guerrillas, who in turn opted for more high-profile initiatives, such as kidnapping diplomats, which served to draw public attention to the existence of an active opposition to the regime and also led to successful negotiations for the release of some of their *companheiros* from prison. At two o'clock in the afternoon of 4 September 1969 there took place one of the most spectacular actions in the armed struggle against the regime: the kidnapping of the U.S. ambassador Charles Burke Elbrick. This was a joint activity by the ALN and the Dissidência Comunista da Guanabara, a group made up of students who had left PCB in 1966 and who after the kidnapping adopted the name of *Movimento Revolucionário 8 de Outubro* (MR-8), a reference to the date of the death of Che Guevara in 1967.¹³ It was an action that made headlines around the world and made a deep impression on the military. Eventually the ambassador was released in exchange for fifteen political prisoners who were flown to Mexico. In 1970 three other foreign diplomats were kidnapped by armed revolutionary groups (the Japanese Consul-General and the ambassadors of West Germany and Switzerland),

¹² See Marcelo Ridenti, 'As mulheres na política brasileira: os anos de chumbo', *Tempo Social* 2/2, (1990), 113–28.

¹³ 8 October 1967 was in fact the date of Guevara's imprisonment. He died the following day.

and then exchanged for a total of 115 political prisoners, who were also transferred abroad. But these guerrilla tactics in turn led to the adoption of even tougher repressive measures by the military government. For example, on the day Ambassador Elbrick was released (9 September 1969), the regime issued AI-14, which established life sentences and death penalties for those involved in 'revolutionary or subversive warfare' as defined by the National Security Law.

The escalation of guerrilla activity during 1969 coincided with a political crisis inside the regime. On 29 August, two and a half years into his four-year term, a stroke left Costa e Silva paralysed. (He eventually died on 17 December without ever resuming his presidential duties.) The military chiefs vetoed the constitutional rule under which Vice-President Pedro Aleixo would have assumed the presidency. Not only was Aleixo a civilian politician, but he had spoken out against AI-5, arguing that the existing constitutional powers of the president to decree a state of siege sufficed. This was yet another turning point in the consolidation of military control of the political system. No civilian vice-president would be allowed to assume the presidency in the event of the incapacity or death of the president. (It is no coincidence that the two subsequent vice-presidents – 'elected' in 1969 and 1974 – were military officers.) Instead a *Junta Militar* was formed of the three ministers of the Armed Forces – Admiral Rademaker (Navy), General Lira Tavares (Army) and Brigadier Sousa e Melo (Air Force). It would govern the country for two months.

Once it was certain that Costa e Silva would not return to the presidency, and after long and difficult deliberations, the military High Command became a kind of secret 'Electoral College' in uniform. After consulting generals in the three armed forces about suitable candidates for the presidency, Generals Emílio Médici, Orlando Geisel, Antônio Carlos Muricy and Afonso de Albuquerque Lima had the greatest support. In that order. Albuquerque Lima, who had been Costa e Silva's Minister of the Interior and counted on overwhelming support from younger officers due to his extreme nationalist positions, challenged this outcome and argued for widening the number and rank of officers allowed to vote. He was eventually excluded from the group of potential candidates on the grounds that he was of lower rank than the other candidates (he had only three stars, all the others had four). And the High Command, always conscious of military hierarchy, opted for Médici, the longest-serving general.

General Emilio Garrastazu Médici, aged 65, like Costa e Silva a *gaúcho*, had been the second head of the SNI, replacing Golbery (from whom he

had become estranged for personal reasons) and was now in command of the Third Army in the South. Congress, elected in 1967 but in recess since the promulgation of AI-5 in December 1968 and reduced by almost a hundred members as a result of successive purges (and no *suplentes* were permitted to replace members who were *cassados*), was reopened in October 1969 to ratify the Armed Forces' choice for the presidency. Given the internal divisions within the military, formal endorsement of the High Command's nominee by Congress would provide respectability, semi-legitimacy. On 25 October, Médici was elected president (and Admiral Rademaker vice-president). The vote was 293 in favour (all ARENA), none against. There were seventy-six abstentions (all MDB). Médici took office on 30 October 1969, not with a mandate to complete Costa e Silva's term of office (to March 1971) but, though again for a fixed term, a mandate to serve a full four-year term plus six months (to March 1974). Orlando Geisel was appointed Minister of the Army, Médici's right hand in the fight against 'subversion' while at the same time controlling the more extreme elements in the barracks. In marked contrast to the Costa e Silva administration, the Médici administration was not constantly subjected to manifestos and open letters signed by junior officers.

The harshest phase of the military regime, initiated during the Costa e Silva government under AI-5, lasted throughout the entire tenure of his successor. The military, the security forces, the federal and state police engaged in a *guerra suja* (dirty war) directed at political opponents – labour leaders, student leaders, intellectuals, journalists and other professionals, but above all the armed revolutionaries. In order to combat armed opposition in the period post-AI-5, the regime made full use of all the intelligence and repression mechanisms at its disposal – and created many new ones. For example, in July 1969 Operation Bandeirantes (OBAN) was formed on the initiative of general José Canavarro Pereira, commander of the Second Army in São Paulo, specifically to capture 'terrorists' and 'subversives'. OBAN was a military operation but counted on the support of the civilian and military police forces, and was sponsored by leading São Paulo businessmen. In the same month, the government published its *Diretriz para a Política de Segurança Interna* ('Guidelines for Internal Security').

The OBAN initiative in São Paulo led to the creation in January 1970 of Centres of Internal Defense Operations (*Centros de Operações de Defesa Interna*, CODIs), across the country with the aim of coordinating repressive activities in their respective military regions, though in practice the various repressive bodies continued to act with a significant degree of autonomy.

Soon the CODI created operational repressive task-forces called Destacamentos de Operações de Informações (DOI, an acronym that, as more than one officer in charge of repression noted ironically, means ‘it hurts’ in Portuguese). The various DOI-CODIs, as they became known, became yet another operational body engaged in repression along with the Centro de Informações do Exército (CIE), the Centro de Informações da Marinha (CENIMAR) and the Centro de Informações da Aeronáutica (CISA). Together, these bodies were responsible for the bulk of the most violent repression. Torture became a regular procedure in military prisons. According to the statements of military officers who took part in the repression, other countries, especially the United States but also Britain, Germany, Israel and, above all, France (drawing on its experience in Algeria), helped with training in investigative procedures and ‘interrogation techniques’.¹⁴

The number of men of all ranks directly involved in the organs of intelligence and repression (CIE, CENIMAR, CISA and the DOI-CODIs) never perhaps exceeded 1,000 – in a universe of approximately 220,000.¹⁵ This operational network, however, had a strong degree of autonomy in the planning and execution of its actions. Besides this, the co-ordination between the agencies themselves was very weak. These two features made the various repressive bodies a disturbing factor for the traditional chain of military command. Officers directly engaged in intelligence operations and repression gained a de facto power that was not proportionate to their rank in the military hierarchy. In some cases, notably in the Air Force, officers not directly engaged in repression actually came to feel threatened by their own colleagues. In December 1971, for example, Brigadier João Paulo Moreira Burnier, the commander of III Zona Aérea, and Brigadier Carlos Afonso Dellamora, the head of CISA, were forced to relinquish their posts.

There are several indications of the existence of internal tensions within the armed forces created by the operations of the new repressive agencies established for combating organisations of the armed revolutionary Left. The Armed Forces had a well-established and traditional command

¹⁴ See, for example, the evidence of general Adyr Fiúza de Castro, in Gláucio Ary Dillon Soares, Maria Celina D’Araújo and Celso Castro (eds.), *Os anos de chumbo: A memória militar sobre a repressão* (Rio de Janeiro, 1994), p. 52. We are grateful to João Roberto Martins Filho for drawing our attention to the influence of the French experience. See his unpublished paper, ‘Tortura e ideologia: os militares brasileiros e a doutrina da *guerre révolutionnaire* (1959–1974)’.

¹⁵ This estimate is taken from Elio Gaspari, *A ditadura escancarada* (São Paulo, 2002), p. 185. Under the military in Argentina and Chile a much greater proportion of the armed forces were directly involved in the ‘dirty war’.

structure, based on clearly defined geographical units, but this structure was often challenged by interference from the new 'operational' network of intelligence, which recognised no geographical boundaries and was controlled directly by the offices of each military minister. High-ranking officers like Generals Otávio Costa and Moraes Rego, for example, had problems with Army intelligence officers who operated independently in the military regions under their command.¹⁶ Despite these differences, the need to preserve the *esprit de corps* of the Armed Forces in face of an increasingly hostile civil society prevailed. Therefore, the existence of such internal tensions was not overtly acknowledged for some time. They became more visible only when the main political issue became the 'opening' of the military regime during General Ernesto Geisel's term as president.

In less than three years – by the end of 1971 – all urban guerrilla groups had been destroyed or disbanded. The most important guerrilla leaders were dead. Marighella of the ANL was killed in a police ambush in São Paulo in November 1969. Lamarca, who had left the VPR to join the MR-8 in April, was killed in the *sertão* of Bahia in September 1971. Of those who were not killed, many were imprisoned and tortured; some managed to escape into exile. Despite the violence of the repression used against the organisations of the Left engaged in armed struggle, their defeat should not be put down solely to the repressive methods used by the dictatorship, and especially torture. The fact that the political positions adopted by these vanguard movements was far removed from the real revolutionary possibilities at the time was also a decisive factor in their defeat. They had, of course, no confidence in representative liberal democracy, and their links to the non-armed Left, to the MDB, and to liberal-conservative elements opposed to the dictatorship were always weak. And they never secured broad popular support. Politically isolated, they soon reached a dead end from which there was no obvious way out. Their activities became increasingly limited to desperate attempts to save their '*quadros*' from physical destruction by the much superior force of the repressive apparatus mounted to combat them.

¹⁶ Gláucio Ary Dillon Soares, Maria Celina D'Araújo and Celso Castro (eds.), *Visões do golpe* (3 vols, 1994–1995) and Ronaldo Costa Couto, *Memória viva do regime militar. Brasil: 1964–85* (1999) include interviews with officers who held important positions under the military regime. There is a consensus on the political situation that preceded the 1964 coup and the reasons that led to military intervention. On the issue of military repression of armed political opponents, however, opinions are divided. Some interviewees linked to intelligence and repression agencies refer to their colleagues who criticised or disagreed with the methods adopted as 'theorizers', 'cowards in disguise', even 'traitors'.

The urban struggle was always regarded as a preparation for revolution in the countryside, though only the Partido Comunista do Brasil (PC do B) led by João Amazonas and Maurício Grabois gave the rural struggle its primary attention. With the urban armed struggle facing defeat, the PC do B made a desperate attempt to establish a rural guerrilla *foco* in a sparsely populated area in the Araguaia River region, the '*Bico do Papagaio*', in the south of Pará and Maranhão (today the state of Tocantins), 1,400 kilometres from Brasília. Planned since 1967, it was in 1971–1972 that some sixty PCdoB militants, many of them middle-class students and young professionals began to infiltrate the region, posing as rural workers with a view to winning the loyalty of the local population. However, they failed to attract more than a handful to the cause. After the failure of several initial efforts to crush the *foco* due to poor intelligence and logistical problems, the military eventually mobilised 12,000 troops based at Xambioá, the largest military mobilisation of the military period. But it took three campaigns before the guerrilla activity was finally brought to an end in January 1975, leaving dozens of deaths and 'disappeared' guerrilla fighters.

The only institution which manifested some degree of resistance and opposition to the military dictatorship to survive the repression of the '*anos de chumbo*' more or less intact was the Catholic Church. During the late fifties and early sixties the Catholic Church in Brazil, relatively weak compared to many in Spanish America, had been ideologically and politically divided between broadly speaking 'conservatives', who were fiercely anti-Communist while not rejecting all social change as disguised communism, and 'progressives', especially in the Northeast under the influence of Dom Helder Câmara, archbishop of Recife and Olinda, who maintained strong links with the Vatican nuncio. The Conferência Nacional dos Bispos do Brasil (CNBB), created in 1952, which represented the church hierarchy as a whole, had been ambiguous towards President João Goulart's reform programme – first cautiously supporting it, then gradually coming to oppose it, and eventually, with the full blessing of the Vatican, wholeheartedly welcoming the military coup in 1964 that brought Goulart down (thus, it believed, saving Brazil from communism).

The Church maintained good relations with military regime in the early years, although its position was clearly ambiguous and riddled with conflict. As the hardliners in the military gradually took control and the regime became more authoritarian and repressive, and influenced by Pope Paul VI's encyclical *Populorum Progressio* (1967) and the declarations of the second conference of Latin American bishops held in Medellín, Colombia,

in 1968 against institutional violence and in favour of a Church 'at one with the poor', a growing number of progressive bishops, priests, nuns and lay militants from the grassroots *comunidades eclesiais de base* (CEBs) found themselves in conflict with the new national security state. And not just in the Northeast. In 1970 in São Paulo Dom Paulo Evaristo Arns replaced Dom Agnelo Rossi who had been archbishop since 1964. Whereas Rossi had been reluctant to criticise the military regime, Arns became a national figure rallying the opposition to the dictatorship. Although the Church remained divided (Dom Eugênio Sales, archbishop of Rio de Janeiro, for example, was an influential figure on the Right), it became a powerful voice denouncing the regime's systematic violation of human rights, including the widespread use of torture, defending civil liberties, and criticising economic policies which only served to reinforce social injustice in Brazil.

At same time, bishops from across the ideological spectrum, including prominent members of the CNBB like Dom Aloísio and Dom Ivo Lorscheider, participated together with generals and officials from the SNI and the CIE in a secret Bipartite Commission to reduce friction and facilitate cooperation between Church and state which met more than two dozen times between November 1969 and August 1974.¹⁷ From the regime's standpoint the Commission existed to control and reduce Church opposition (subversion) and tone down Church criticism, at home and, more important perhaps, abroad. For the Church, it was a way of exercising influence, reducing anti-Church tendencies in the regime that increasingly posed a threat to their own members and, at a practical level, discussing security measures for Church-led mass meetings. While cooperating to this extent with the regime, the Catholic Church nevertheless remained the only serious, persistent opposition force confronting the military dictatorship, acting virtually as a surrogate for civil society.

Meanwhile, even under Médici, certain 'democratic' features of the increasingly authoritarian political system were maintained. On the day Médici took office, 30 October 1969, a lengthy amendment to the 1967 Constitution – making it virtually a new Constitution – came into force. Introduced by the Junta two weeks before Congress met to elect (or rather confirm) a new president, it provided for the election of the next president in 1973 by an Electoral College consisting of members of the two houses of Congress (over which ARENA could be expected to maintain its grip).

¹⁷ See Kenneth P. Serbin, *Secret dialogues. Church-state relations, torture and social justice in authoritarian Brazil* (Pittsburgh, PA, 2000).

State governors would be elected in 1970 but, as in 1966, indirectly elected by state assemblies. They were to be directly elected in 1974. (However, a further constitutional amendment in April 1972 made the gubernatorial elections of 1974 indirect.) Congressional and state assembly elections would also take place in 1970, but the number seats in the Chamber of Deputies was reduced from 409 to 310. Under the 1967 Constitution, as it should be said in every Brazilian constitution since 1934, the distribution of seats in the Chamber remained heavily weighted in favour of the less developed states and thus the states more likely to vote ARENA. São Paulo, for example, with a population of 15.8 million had thirty-three seats, Bahia with a population 6.8 million, twenty-two seats, while many states with populations of less than two million had seven seats, the minimum 'floor'.¹⁸ Municipal elections would be held, but not in the 150 or so cities declared to be of importance to national security, including all state capitals, and not until 1972 (and then in 1976, so that municipal elections no longer coincided with Congressional and state assembly elections). Congress, which had been closed since December 1968 except for brief period in October 1969 in order to rubber-stamp the election of Médici, was allowed to reopen on 31 March 1970. Those state assemblies closed in December 1968 also reopened – São Paulo and Pernambuco in May, Guanabara and Rio de Janeiro in July.

On 3 October 1970 indirect elections for state governor were held. ARENA won in twenty-one of the twenty-two state assemblies. The only exception was Guanabara (the city of Rio de Janeiro) which was won by Chagas Freitas, the candidate of the MDB but a supporter of the military government. These were followed a month later by direct elections for Congress (310 seats in the Chamber and 46 seats in the Senate) and state assemblies. The electorate had increased from 22 million in 1966 to 29 million in 1970, but although the vote was obligatory only 22.5 million voted. And the elections were not, of course, free. The opposition MDB, still demoralised and paralysed by the events of 1968–1969 and inclined to be conformist and submissive, was nevertheless subjected to further government intimidation of its candidates and restrictions on its campaign. On 4 November, for example, ten days before the elections, there was a major

¹⁸ Under Article 39 of the constitutional amendment of 1969 the number of deputies for each state was proportional to the number of registered electors according to the following formula: up to 100,000 electors three deputies; from 100,000 to three million an additional deputy for each 100,000; from three to six million – one more for each 300,000; and more than six million, an additional deputy for each 500,000 electors. These were the rules applied in the elections of 1970 and 1974.

Table 3.3. *Elections to Chamber of Deputies 1966, 1970, 1974 and 1978*

	1966 409 Seats	1970 310 Seats	1974 364 Seats	1978 420 Seats
ARENA	277 (68%)	223 (72%)	204 (56%)	231 (55%)
MDB	132 (32%)	87 (28%)	160 (44%)	189 (45%)

Source: Schmitt, op. cit., p. 44, table 5.

police operation leading to a wave of arrests. And there was heavy censorship of the press, radio and television. For its part ARENA benefited from extensive use of the government machine and government propaganda, not least taking advantage of Brazil's victory (for the third time) in the football World Cup held in Mexico in 1970. ARENA won 40 of the 46 Senate seats up for election and 223 of the 310 seats in the Chamber. The MDB won only four Senate seats and eighty-seven seats in the Chamber, leaving it with fewer than 30 percent of the seats in the Chamber and only ten percent of the Senate seats – in both cases less than in 1966. See Tables 3.3 and 3.4. The MDB won control of only one state assembly: Guanabara.

It was an overwhelming defeat for the MDB. It had polled less than five million votes. In the elections for the Chamber of Deputies more Brazilians voted blank or spoiled their ballots – 21 percent and 9 percent, respectively, 6.7 million votes – than voted for the MDB (21 percent), more on this occasion in deliberate protest against the regime than because the official ballot paper (*cédula única*), first introduced in the presidential election of 1955, remained extremely complicated. In some places the blank and spoiled ballots were together as high as 40 percent. In twelve states there were more blank votes than votes for the MDB. In Bahia and Paraná more voters spoiled their ballot papers than voted for the MDB. In all 46 percent of the electorate abstained or voted *branco* or *nulo* (68 percent in São Paulo, 57 percent in Rio de Janeiro, 54 percent in Minas Gerais and Rio Grande do Sul). There was talk once again in the MDB of

Table 3.4. *Elections to Senate 1966, 1970, 1974 and 1978*

	1966 (1/3)	1970 (2/3)	1974 (1/3)	1978 (1/3)*
ARENA	18	40	6	15
MDB	4	4	16	8

Source: Schmitt, op. cit., p. 44, table 6. *1/3 'bionic'. See p. 211, note 27.

autodissolution. In a postelection editorial the *Jornal da Tarde* wondered whether the military government had not been too successful. It needed an opposition ‘numerically strong enough to be noticed and weak enough not to create problems’.¹⁹

In the thinking of the military regime, however, the legitimacy of the ‘Revolution’ came not now primarily through the retention of democratic institutions, however bogus, or the need to defeat the armed revolutionary Left, but through economic performance – Brazil’s so-called economic miracle.²⁰ Inflation had been brought under control in the aftermath of the 1964 coup as a result of the economic policies pursued by Planning Minister Roberto Campos and Finance Minister Octávio Bulhões, not least the *arrocho salarial* (wage freeze) made possible by the military’s firm control of labour unions (between 1964 and 1970 more than five hundred unions were ‘intervened’ and their leaders replaced) and prohibition of free collective bargaining and of strikes. The Brazilian economy had also begun to grow again, and at a quite spectacular rate: between 1968 and 1973 the average rate of growth was 11.2 percent (with industry growing at 13.3 percent a year). Although income distribution remained extremely unequal, average per capita incomes and levels of consumption rose, and poverty was reduced. At the same time, job security and social security provision was strengthened for urban workers in the formal sector with the creation of the FGTS (Fundo de Garantia por Tempo de Serviço, literally Length of Service Guarantee Fund) and the unification of the social security institutes in the INPS. Moreover, for first time a rudimentary form of social welfare was extended to rural workers, domestic workers and the self-employed.²¹

Taking advantage of its success in the economic field – and Brazil’s victory in the 1970 World Cup – the military regime encouraged excessive demonstrations of national pride (*ufanismo*) and promoted the idea of Brazilian *grandeza* (greatness) with slogans such as *Brasil Potência* (Brazil-Power), *Brasil: o gigante adormecido acordando* (Brazil: the sleeping giant awakens), *Ninguém segura este país* (No one can hold back this country) and *Brasil: Ame-o ou Deixe-o* (Brazil: love it or leave it). And outside Brazil, not least in the United States, there was a growing belief that the country was finally ready to exercise greater influence in the international system.

¹⁹ *Jornal da Tarde*, 19 November 1970, quoted in Maria D’Alva Gil Kinzo, *Legal opposition politics under authoritarian rule: the MDB, 1966–79* (Oxford, 1988), p. 128.

²⁰ On the ‘economic miracle’ of the years 1968–1973, see Chapter 5 in this volume.

²¹ On the social policies of the military regime, see Chapter 8 in this volume.

The United States had supported the 1964 *golpe* and the military regimes of Generals Castello Branco and Costa e Silva that followed.²² But it was only in October 1969 with the ‘election’ of General Médici as Brazil’s third military president that the White House demonstrated a new appreciation of the role that Brazil under military rule could potentially play in the world. The ‘Nixon Doctrine’ (August 1969) had proposed that the United States should rely increasingly on key emerging countries to contain international communism and foster stability across the globe. President Nixon’s National Security Adviser (and later Secretary of State) Henry Kissinger set out to cultivate special relations with Brazil in Latin America (as well as Iran and Pakistan in the Middle East, Indonesia in the Far East, and Zaire in Africa).

During the Médici years, the reception in Brazil of the White House’s overtures for greater proximity was mixed. On the one hand, Brazil’s ruling generals welcomed Nixon’s support at a time when they were intensifying domestic political repression. On the other, however, important sectors within Brazilian military and diplomatic circles doubted the benefits of too close an engagement with the United States. In the first Nixon administration, the United States–Brazil convergence remained largely rhetorical, and the actual contents and mechanisms for closer cooperation remained unspecified. The Médici administration was generally critical of *détente* and superpower agreements that divided the world into spheres of influence, ‘freezing’ the international system and undermining Brazil’s quest for greater autonomy and influence in world politics. For all its ambitions, foreign policy under Médici was mildly revisionist rather than radical. Specifically, the Médici administration refused to sign the Non-Proliferation Treaty; argued at the UN for the transfer of one percent of global military expenditure into the promotion of global economic development; kept observer status but never joined the Non-Aligned Movement, making its support for the Third World movement conditional and fluctuating; advocated UN Charter reform; joined in the demand for a New International Economic Order; abandoned its support for Israel in order to appeal to the Arab world, and its support for South Africa to appeal to Black Africa; extended its territorial waters from three to two hundred miles; turned its back on the possibility of taking up a rotating seat in the UN Security

²² The authors wish to acknowledge the collaboration of Matias Spektor in drafting the following section on Brazil’s foreign policy under Médici as well as the section on foreign policy under Geisel later in this chapter.

Council due to 'great-power intransigence'; and refused population control measures advocated by the World Bank and the UN General Assembly. Western Europe and Japan were now regarded as trading partners equally as important as the United States. Brazil also began for the first time to explore markets in Africa, the Middle East and Asia.

In South America, the Médici years were marked by one of the most intense diplomatic disputes in the history of the region – that between Brazil and neighbouring Argentina over the control of the Paraná River. The Paraná originates in Brazil, flows downstream towards the common Brazil – Paraguay border, enters northern Argentina, and finally reaches the Rio de la Plata basin. In the late 1960s Brazil and Paraguay launched a joint-venture to build a major dam on the Paraná at Itaipú, some thirty kilometres upstream from the Argentine border. The ensuing diplomatic battle between the two largest and most powerful countries in South America brought Brazil – Argentina relations to a historic low (at least since the wars of the early and mid-nineteenth century) – until 1979 when, with regular diplomatic channels exhausted, the military took over the negotiations and secured a final agreement on Itaipú which in turn provided the conditions for improved relations in general between the two countries.

The presidential succession in 1973–1974 remains one of the most obscure episodes in the history of the military regime. Some of the hard-line military chiefs hoped for an extension of Médici's mandate, whilst the president preferred to hand over the presidency to his Army Minister, General Orlando Geisel, who enjoyed enormous prestige in the barracks because he was seen as the strong man behind the repression of subversive organisations. Orlando Geisel, however, did not accept the invitation, claiming poor health (he died in 1976), but indicated (and supported) his younger brother General Ernesto Geisel, sixty-seven-years old, who was president of Petrobras at the time. Ernesto Geisel thus became overnight, it was said at the time, an 'eight star' general (four of his own and his brother's four). It would be wrong, however, to assume that because they were brothers, sons of German Lutheran immigrants to Rio Grande do Sul in the 1890s, they were acting in unison in this matter. In reality it was much more complicated. For several years the two brothers had been at different ends of the spectrum in military politics and maintained a relationship that was no more than cordial. Furthermore, Médici's closest advisors viewed Ernesto Geisel with suspicion due to his *castelista* past (he had been the head of Castelo Branco's Casa Militar). Médici nevertheless eventually invited Ernesto Geisel to become the next president. The choice

of Geisel, and of General Adalberto Pereira dos Santos for vice-president, was approved by the military High Command in July and by ARENA in September 1973.

Since its heavy defeat in the Congressional and state assembly elections in November 1970 (and its equally poor showing in the municipal elections two years later – securing only 30 percent of the vote for *prefeitos* and 20 percent for *vereadores* in those *municípios* permitted to hold elections) the MDB had been slowly attempting to rid itself of its negative, compromising, submissive image. In this the so-called *grupo autêntico*, 20–30 deputies elected in 1970, played an important role in challenging the moderate, predominantly ex-PSD majority. From early in 1973 the *autênticos* argued that the MDB should contest, even though it would not be allowed to win, the indirect presidential election in 1974. They finally won over the party leadership – the national president deputy Ulisses Guimarães (ex-PSD), the leader in the Chamber of Deputies Oscar Pedroso Horta and the Senate leader André Franco Montoro – all three from São Paulo. And in September 1973 the *autêntico* position was adopted at the party's national convention – a decision regarded as the most important manifestation of opposition to the military dictatorship since 1968. And the Convention approved the unanimous choice of the national directorate: Ulysses Guimarães for president (not the candidate the *autênticos* would have chosen) and the journalist Barbosa Lima Sobrinho, president of Associação Brasileira de Imprensa (ABI), for vice-president. In his acceptance speech Ulysses memorably described himself as an 'anti-candidate' fighting an 'anti-election' under an 'anti-constitution'. On 15 January 1974 in the Electoral College (under the 1969 amendment to the 1967 Constitution an expanded Electoral College consisting of all members of Congress plus delegates from the state assemblies) four hundred voted for Geisel, and seventy-six voted for Ulysses Guimarães. Twenty-one MDB dissidents presented blank ballots rather than vote for their own candidate. Geisel, the third *gaúcho* president in succession, was elected to serve a five-year term to March 1979.

MARCH 1974–MARCH 1979

A new phase of the military regime began with the inauguration of General Ernesto Geisel, Brazil's fourth military president, on 15 March 1974, two weeks before the tenth anniversary of the 1964 *golpe* which first brought the military to power. Geisel's presidency brought back into power some

of the senior military officers who, immediately after 1964, had been, like himself, part of the so-called *castelista* group. In particular, Golbery do Couto e Silva, the creator and first head of the SNI, who had been out of power since March 1967, became head of the *Casa Civil* and Geisel's principal political counsellor and collaborator.²³

Ernesto Geisel, although curiously the first military president not actually to promise to reestablish democracy in Brazil in his inaugural speech, started out with a clearly defined project of controlled political liberalisation. In language that was deliberately imprecise, he promised to direct his efforts towards 'democratic improvement', by means of a political decompression (*distensão*), later better known as a process of political opening (*abertura*), but one that would have to be 'slow, gradual and safe' (*lenta, gradativa e segura*) as he told the leaders of ARENA in August. And it would have to coexist with the instruments of authoritarian rule, including (at least in the short term) the powers given to the president by the Institutional Act no. 5. There was no clear programme for change – and no timetable. The aim was to effect not a transition to democracy (freely contested elections for president, state governors, mayors, Congress, state assemblies, and so forth based on universal or near universal suffrage, allowing for the possibility of an alternation of power) – even the limited democracy of the 1945–1964 period. Geisel did not even envisage the end of military rule. At most he would take Brazil back to the position it was in before December 1968 by eventually revoking AI-5, ending the arbitrary nature of the regime, and restoring, within strict limits, the rule of law. This is what he meant by political *normalização*. Since the opposition to the regime would inevitably benefit from and take advantage of any political space opened up, and since the more moderate officers were not a majority, or even the strongest group, in the military (on the contrary, the radical 'hardliners' were at the peak of their power and were always suspicious of, and unhappy with, the choice of Geisel as Médici's successor), this was a delicate project, fraught with danger for Geisel and the *castelistas*. It would be essential firmly to control the rhythm and clearly to define the limits of any political transition.

The reasons behind Geisel's project, initiated unilaterally from above, have been much debated. It was a response neither to a significant weakening of the regime, nor to a significant strengthening of the opposition

²³ Elio Gaspari has built his projected five-volume history of the military in power in Brazil, *As ilusões armadas* around the relationship between Geisel and Golbery: *o sacerdote* and *o feiticeiro* [the priest and the sorcerer].

to the regime. Although, following the oil shock of 1973–1974, there were early signs that the ‘economic miracle’ might be coming to an end, there was no economic crisis. And there was no notable international pressure for change. It would seem that with the defeat of the armed left, indeed the defeat of all significant opposition to the regime (except for the remnants of the ‘guerrilha do Araguaia’ – see earlier in this chapter), Geisel was primarily concerned with the costs of the repressive phase of the ‘Revolution’ in terms of the weakening of hierarchy and discipline in the military and the high command’s loss of control over the security and intelligence communities which had become virtually autonomous within the state apparatus. Geisel and Golbery aimed to restore the traditional chain of command within the military. This would at the same time in their view bring about the much-needed ‘definitive institutionalisation’ of the principles of the 1964 ‘Revolution’ and restore the regime’s legitimacy.

As this political project turned into a political process, Geisel found himself facing the opposition both of the MDB, that wished to hasten the pace and expand the range of political liberalisation, leading to genuine democratisation, and of the more radical military sectors, who were opposed to *any* political liberalisation and already looking to restore their position through the presidential succession in 1978–1979. Geisel had to fight simultaneously in two fronts, as he explained in an interview published in 1997 after his death:

There were people in the Army, in the Armed Forces as a whole, who had this obsession with conspiracy, with communism, with the Left. And the situation became more complex because the opposition, particularly in Congress, instead of understanding what I was doing, my attempts to gradually solve this problem, once in a while took aggressive and hostile stands. Every time that the opposition took radical stances and attacked the Armed Forces, by means of speeches, manifestos, public statements, obviously there was a reaction on the other side, and this created great difficulties for me. [...] I was pressed from both sides; by the opposition and by the military, unhappy with the criticism and with the expressions used by the opposition. [...] I spent my entire term in the middle of this game. This is what caused the delay of the final solution, the extinction of the Institutional Act number 5. While the opposition was so aggressive, it was not possible to liberalize the regime and satisfy it. I could not turn my back on the military, who, despite the co-operation of the ARENA, were the main supporters of the revolutionary government. [...] The acts of the opposition exacerbated the ‘hard-liners’, who, to a certain degree, were on the side of my government, but who were the other sector that I needed to control. In other words, I had to fight in two fronts: against the communists [it is noteworthy that Geisel still identified opposition to the ‘Revolution’ with communism.] and against those who fought the communists. That indeed is the truth.²⁴

²⁴ Celso Castro and Maria Celina D’Araújo, *Ernesto Geisel* (Rio de Janeiro, 1997), pp. 377, 391, 420.

The first step towards political liberalisation was the decision to permit elections in 1974 to be held in somewhat freer conditions than in 1970: that is to say, the Congressional and state assembly elections in November. (State governors were indirectly elected in October by the state assemblies and, as in 1970, ARENA won in all the states whose assemblies it controlled, that is, all states except Guanabara.)²⁵ The November elections would not be entirely free: the MDB remained the only permitted opposition; its candidates were subjected to intimidation and threats of *cassação*, though less so than in 1970; the press still operated under strict censorship, but the MDB was allowed free access to radio and television in the two months preceding the election. Already emboldened by popular response to its 'anti-candidate' campaign for the presidency in 1973, and sensing a growing weariness with military rule and a resentment at the unequal distribution of the benefits of the so-called economic miracle (and the effects of the first economic downturn in more than five years), the MDB took advantage of the relative freedom of expression in the media, especially television. For the first time since it was artificially created in 1966, the MDB began to behave like a genuine opposition party. And, in view of the adverse conditions in which it still operated, the MDB surprised itself – and the regime – with its relative success.

Twenty-nine million Brazilians out of an electorate of 35.7 million voted in the legislative elections of November 1974. In the absence of direct, popular majority elections for president, governor or mayor of the more important cities, elections for senator had become the real test of support for the government and the opposition. The MDB won sixteen of the twenty-two Senate seats contested (one third) and polled 14.5 million votes (just 50 percent) compared to 10.1 million (35 percent) for ARENA, which therefore suffered its first ever election defeat. ARENA still, however, controlled the Senate because of the seats it won in 1970. In the elections for the Chamber ARENA won 204 seats, and the MDB won 160 (almost doubling the size of its *bancada*, but in a Chamber which had been enlarged from 310 to 364 seats). See Tables 3.3 and 3.4, p. 197. The ARENA vote was down from 50 percent in 1966 and 1970 to 41 percent. It had 11.8 million votes, compared with 10.9 million votes for the MDB, which this time

²⁵ On 15 March 1975 the state of Guanabara (city of Rio de Janeiro, until 1960 the Federal District) was merged with the state of Rio de Janeiro and ceased to exist. To oversee the *fusão* Geisel appointed as governor of the enlarged state of Rio de Janeiro Vice-Admiral Faria Lima, a personal friend and his successor as President of Petrobras.

attracted many who had voted *branco* and *nulo* in 1970. The percentage of blank or spoiled ballots fell from 46 percent to 21 percent. ARENA also narrowly won the popular vote in the state assembly elections (42.1 percent to 38.8 percent). But the MDB won in six states and these included São Paulo, Guanabara, Rio de Janeiro and Rio Grande do Sul. In these four states, the most urban and economically developed states, which accounted for 42 percent of the electorate, the MDB secured 61 percent of the vote (over 70 percent in São Paulo and Guanabara). Of the ninety cities with populations of more than 100,000, the MDB won in seventy-nine, ARENA in only eleven, all in the predominantly rural and economically backward Northeast.

If the MDB was surprised by the results of the 1974 legislative elections, the government was shocked. It had assumed that ARENA still had total control of the electoral process, as can be seen when we compare the projections made by the SNI and the actual result of the election. The SNI predicted that ARENA would increase its representation in the (expanded) Chamber of Deputies from 223 to between 238 and 265, and it ended up with only 204 deputies. It predicted that the MDB's representation would increase from 87 to between 99 and 126 and in the event it won 160 seats.²⁶

The November 1974 elections had been regarded by many as the first real test of the military regime's popularity since the 1964 coup. Although it still controlled both houses of Congress, the government had to all intents and purposes suffered a defeat. It was evident that it no longer had significant support in the more urban, more developed parts of the country, despite the 'miracle'. It had even lost ground in the North, Northeast and Centre-West where in 1966 it had won more than 60 percent of the vote. There was an atmosphere of crisis in military circles comparable to October 1965 and December 1968. The Revolution was under threat. The Communist danger was rediscovered – or reinvented. Chile before September 1973 and Portugal since April 1974 were warnings of what might be to come. The results of the 1974 elections intensified the disagreements between those in the military in favour of the process of political liberalisation and the 'hardliners', especially in the intelligence and repressive apparatus, who opposed it. This was indeed one of the critical moments in the history of the military regime. Geisel was forced to retreat. *Distensão* was temporarily

²⁶ Celso Castro and Maria Celina D'Araújo (eds.), *Dossiê Geisel* (Rio de Janeiro, 2002), p. 45.

abandoned. As early as January 1975, using its powers under AI-5, the government mounted a major offensive against 'subversives' in the media, the unions and above all in the MDB which was accused of having been penetrated by the Communist party.

For its part the MDB once again faced a dilemma. The promised *abertura* had offered a possibility of a gradual transition to democracy and some of the *autênticos* re-elected in 1974 and the so-called neo-*autênticos* elected for the first time were eager to maintain the pressure on Geisel to fulfil his (limited) promises and to go beyond them. But the majority (variously known as *moderados*, *adesistas*, *fisiológicos*), conscious of the pressure on Geisel from the Right and even the possibility of another 'coup within the coup', preferred to adopt a more 'responsible' position, avoiding any confrontation with Geisel that would further provoke the hardliners in the military. It could be argued that the MDB leadership was too cautious, too easily frightened, and that it exaggerated the dangers in the post-election situation. Certainly it never considered popular mobilisation against the regime as a political option. Without popular roots and organisation, the MDB was not an instrument for transforming the system by pressure from below. The perceived choice was either auto-dissolution (once again considered by some) or to work towards securing a majority in the Electoral College and the indirect election of an opposition candidate for the presidency in 1978.

Two episodes decided the renewed conflict within the military regime in favor of Geisel. In October 1975 a prominent *paulista* journalist, Vladimir Herzog, officially 'committed suicide' by hanging himself with his belt (actually he was killed during a session of torture) in the hands of a military unit of the city of São Paulo. The 'seventh-day Mass' for Herzog, a Jew and a supporter of the Communist Party, conducted by Dom Paulo Evaristo Arns, archbishop of São Paulo, openly challenged the verdict of suicide and brought more than 10,000 people to the Cathedral in the Praça da Sé. It was the first great public demonstration against torture and the military dictatorship. Geisel warned General Ednardo D'Ávila Melo, commander of the Second Army, that he would not tolerate any more deaths under the same circumstances. Less than three months later, on 17 January 1976, however, Manuel Fiel Filho, a Catholic worker also linked to the Communist Party, died as a result of torture (the official version again called it 'suicide') in the same unit. Geisel reacted immediately and surprised many officers by summarily relieving General Ednardo of his command and appointing General Dilermando Gomes Monteiro in his place. This was intended to

be a clear signal that military commanders would now be responsible for all repressive actions that occurred in areas and units under their command, even if such actions were executed without their knowledge or consent. In making this decision, Geisel was not concerned mainly with human rights' violations. In fact, in the interview cited above, Geisel made it clear (and it shocked many people) that he considered torture to be necessary under certain conditions, as for example in confrontations with left-wing guerrillas engaged in armed struggle. Geisel was always more concerned with controlling the military agencies dedicated to intelligence and repression which had become largely autonomous, jeopardising the traditional hierarchical chain of command and thus jeopardising the military as an institution.

Geisel's second crucial moment in his confrontation with the more radical elements in the military came about when the 'hardliners' started to promote the name of the Army Minister, General Sílvio Frota, as a candidate to succeed him as president. Frota had endorsed the standard criticism of Geisel's liberalisation measures and had thus entered on a collision course with the president. On 12 October 1977 Geisel fired him, in a surprising but carefully planned manoeuvre devised to neutralise possible 'hardline' reactions in his favour, and thus restore full presidential authority over the Armed Forces. It was the first (and only) time during the military regime that an Army Minister was dismissed.

It is interesting to compare Geisel's dismissal of Frota with Castelo Branco's failure to dismiss his Army Minister Costa e Silva in 1965 (as recommended by Geisel, who was head of Castelo Branco's Casa Militar at the time). Besides the differences in political context and between the personal styles of Castelo Branco and Geisel, the upper echelons of the Armed Forces in 1977 were significantly different from those of 1965. Castelo Branco had adopted a law by which military promotions created much shorter and strictly limited terms for generals to remain on active duty. Because of this, ten years later many generals had passed to the reserves and the Armed Forces no longer had those long-serving generals who created entourages of loyal officers during their many years in command posts. Although both junctures pitted the president against his respective Army Minister, the hierarchical distance between President Geisel and Frota was much larger than the distance between President Castelo Branco and Costa e Silva. Indeed as we have seen, Castelo Branco and Costa e Silva graduated from the Army academy in the same year, and Costa e Silva actually outranked the president.

The Geisel presidency witnessed perhaps the strongest attempt by Brazil thus far to enlarge its ambitions abroad. Geisel met Foreign Minister Azeredo da Silveira more times in private than any other member of his cabinet, with the exception of Minister of Justice Armando Falcão. They set out to isolate Brazil's greatest rival, Argentina, through a series of technical and financial agreements with Uruguay, Paraguay and Bolivia. In addition they negotiated a Treaty for Cooperation on the Amazon with Brazil's Andean neighbours. The administration also abandoned Brazil's traditional support for Portuguese rule in Africa, siding instead with the independence movements even though these were overtly Marxist. (Brazil was the first state to recognise independent Angola in 1975.) Geisel also changed Brazil's policy towards Israel, supporting oil-rich Arab states and opening embassies in the Middle East for the first time. He also recognised mainland China. And he made a series of state visits to France, Germany, Japan and the United Kingdom. With Germany, Brazil in 1975 signed an ambitious agreement to build eight nuclear power plants outside the framework of the Non-Proliferation Treaty (NPT).

At the same time between 1974 and 1977 Brazil set out to develop the policy of closer engagement with the United States first proposed by Henry Kissinger during the first Nixon administration. Every few months Silveira met privately with Kissinger, who after Nixon's resignation in 1974 remained both National Security Advisor and Secretary of State under President Gerald Ford, to discuss a broad agenda which included: voting strategies in the UN and the OAS; the international energy crisis; nuclear proliferation; global economic management and bilateral trade; threats to stability in the Caribbean and South America; the independence movements in Africa; and the peace process in the Middle East. Brazil and the United States had opposing views on some crucial issues, notably Brazil's nuclear programme and Brazil's involvement with Marxist regimes in Africa, but during 1975 and the early months of 1976 Silveira and Kissinger were able to negotiate an ambitious but highly flexible 'memorandum of understanding' to institutionalise United States–Brazil engagement, which they hoped would lock future administrations into some form of sustained cooperation. Once signed, in February 1976, the memorandum represented the high point in postwar United States–Brazil relations.

It also marked the beginnings of a decline. With the election of Jimmy Carter to the presidency of the United States at the end of 1976 – during the campaign Carter had called the United States–Brazil memorandum 'a

slap in the face of the American people' – the language of engagement that marked the Nixon/Ford/Kissinger years vanished from White House discourse. The new administration came into office in January 1977 with human rights and nonproliferation two of its major concerns. This made Brazil – an authoritarian military regime which systematically violated the rights of its citizens and sought to develop nuclear technology – a prime target. Carter's criticisms of Brazil were high-profile, as were those of Vice-President Mondale, Secretary of State Cyrus Vance, National Security Advisor Zbigniew Brzezinski – and, famously, the First Lady, Rosalynn Carter. Although in many ways the Carter administration eventually softened its position, bilateral relations were strained beyond repair. In March 1977, after the U.S. Congress had published a report on Brazil's poor record on human rights, Geisel denounced unilaterally a long-irrelevant but highly symbolic joint military agreement signed with the United States a quarter of a century earlier. The efforts initiated by Kissinger in 1969 to forge a close working relationship between the United States and Brazil came to an abrupt end.

Geisel was the first (and only) military president to impose his preferred candidate as his successor. In December 1977, without consulting the High Command, he chose João Baptista Figueiredo and at the same time accelerated his promotion from a three-star to a four-star general (which did not go down well in some military circles). Figueiredo, head of the Casa Militar during the government of General Médici – but not a notable hardliner – was head of the SNI in the Geisel administration. He had considerable experience of government and was considered by many of his peers a man of great intellectual ability – surprising in view of his later reputation which was just the opposite. (Figueiredo was, in the military jargon, a rare case of 'triple crown'; that is, an official who had during his career achieved first place in the Academia Militar, the Escola de Aperfeiçoamento and the Escola de Estado-Maior.) His participation in the Médici and Geisel administrations represented a guarantee that, even in the midst of strategic changes, the core interests of the 1964 Revolution and unity and discipline in the Armed Forces would be protected. At the same time, he had been entirely comfortable with *abertura*. Geisel could feel his political strategy was in safe hands after 1979 – and indeed until 1985 since by constitutional amendment in April 1977 the presidential term had been extended from five to six years. At its national convention in April 1978 ARENA overwhelmingly endorsed Figueiredo for president and Aureliano Chaves, the former governor of Minas Gerais, for vice-president. (Chaves

would become the the first civilian to hold the post since Pedro Aleixo in 1969.)

In May 1978 the search for an alternative candidate to Figueiredo began with the formation of the Frente Nacional de Redemocratização, composed of military dissents like General Hugo Abreu, who had resigned as head of the Casa Militar in January over the choice of Figueiredo and the manner of his choosing (and the fact that he himself had been passed over for promotion when Geisel made Figueiredo a four-star general), and retired General Euler Bentes Monteiro, and ARENA dissidents like senator and former governor of Minas Gerais, Magalhães Pinto. The Frente was dedicated to furthering the 'democratic ideals of the 1964 Revolution' (*sic*). The only vehicle for an opposition candidate in the Electoral College was the MDB. Since the middle of 1977 some of its leaders had been attracted once again to the idea of a military candidate. At its national convention in late August 1978 the party voted 497 to 352 in favour of General Euler as its candidate for president, with MDB senator Paulo Brossard (Rio Grande do Sul) its candidate for vice-president. One hundred and seven voted *em branco* and 25 *nulo*. General Euler committed himself, if elected, to revoking the Institutional Acts, temporarily restoring the Constitution of 1967 and calling elections for a Constituent Assembly within a year. However, when the Electoral College – the 1974 Congress together with representatives of the state assemblies – met on 15 October 1978 to the surprise of no one it elected Figueiredo and Chaves with 355 votes to 226 votes for General Euler and Brossard.

A month later elections for Brazil's legislative bodies were due to be held. In April 1977 the Geisel administration had already taken the necessary steps to prevent the MDB from building on the advances it had made in 1974 and to guarantee ARENA continued control of Congress, even though ARENA was considered by many in the military as having 'muitos quadros pouco confiáveis' (many unreliable elements) and not perhaps the most efficient tool for defending the 'Revolution'. Once again the military regime significantly changed the rules of the electoral game in its own interest. After a government bill for the reform of the judiciary failed to find approval in Congress, Geisel closed Congress for two weeks and on 14 April promulgated a series of measures (in the form of constitutional amendments) which came to be known as the '*pacote de Abril* [April package]'.

Under the April 1977 *pacote*, state governors, due to be elected directly in 1978, would, for the third time, be elected indirectly by electoral colleges of

state assembly deputies. First, this removed the possibility that the MDB might elect governors in a number of states, notably São Paulo, Rio de Janeiro and Rio Grande do Sul, where it had shown real electoral strength in 1974. (And indeed in October 1978 ARENA once again duly retained all the state governorships except that of Rio de Janeiro – which, since the *fusão* in 1975, included the former state of Guanabara/city of Rio de Janeiro.) It was won by Chagas Freitas, the former governor of Guanabara, on the MDB ticket. Secondly, to prevent further MDB gains in the Senate, instead of two-thirds of the seats which were to be elected in 1978 only one-third would be contested, the other third being nominated by the state electoral colleges that elected the governors, all but one controlled by ARENA. (In September an opposition amendment to overturn this part of the ‘*pacote de Abril*’ and retain direct elections for all Senate seats was defeated in the Chamber of deputies by 241 votes to 145.) The nominated senators would become known as the *biônicos* .²⁷ They were to serve a full eight-year mandate, that is to say, until 1986, by which time, it was calculated, not one but two indirect presidential elections would have taken place. Thirdly, the number of seats in the Chamber was increased again to 420 and representation was in proportion to population (including illiterates who did not vote) rather than registered voters, with a minimum six and a maximum of fifty-five per state, thus further favouring ARENA which was strongest in the large number of less developed states in the North and Northeast. Fourthly, the number of delegates from state assemblies in the Electoral College to chose the next president was increased to three per state, plus an additional one per one million inhabitants, minimum four, and proportional to party representation in each assembly, which also favoured ARENA. Finally, the notorious *Lei Falcão* (named after the Minister of Justice) aimed at restricting opposition access to radio and television during the municipal elections of November 1976 was extended to the Congressional and state assembly elections of November 1978. At the same time, Constitutional amendments would in future no longer require a two-thirds majority. ARENA votes in Congress would be enough to ratify any proposal of the military government.

In the elections for the Chamber of Deputies on 15 November 1978, 15.1 million *eleitores* (40 percent) voted for ARENA and 14.8 million

²⁷ There was a popular American television series at the time, *The Six Million Dollar Man* , in which the principal protagonist, the ex-astronaut Steve Austin (played by actor Lee Majors), received various cybernetic or bionic implants following an accident which gave him special powers and thus the nickname ‘Bionic Man’.

(39.3 percent) for the MDB, with 7.5 million (20.7 percent) voting *branco* or *nulo*. The MDB had further narrowed the gap between the two parties. It won in all but three state capitals, confirming its superiority in the major urban areas. ARENA, however, secured 231 seats (55 percent), the MDB secured only 189 (45 percent). See Table 3.3, p. 197. In the elections for the Senate the MDB had 17.4 million votes (46.5 percent) against 13 million (35 percent) for ARENA. The MDB piled up huge majorities in the Senate races, especially in São Paulo (where 4.5 million voted for Franco Montoro), but also in Rio de Janeiro, Minas Gerais, and in the three southern states. Nevertheless, ARENA secured fifteen seats and the MDB only eight. See Table 3.4, p. 197. With twenty-one of the twenty-two *biônicos*, thirty-six of the forty-five new senators in 1978 belonged to ARENA which had won only a little over a third of the popular vote. In the elections for state assemblies ARENA polled 15.4 million votes to 14.8 million for the MDB and won control of eighteen of the twenty-two assemblies, though the MDB won in three of the four most developed states – São Paulo, Rio de Janeiro and Rio Grande do Sul.

There was thus some relief for the regime. The MDB had consolidated its position, but it had been contained. It had made no startling gains. The regime's long-term strategy, however, remained unclear. If elections continued to be in effect plebiscites on the regime outright victory for the MDB was a distinct possibility in 1982, leading to institutional crisis. Already the regime's strategists were beginning to think of an amnesty for political exiles and a restoration of the multiparty system in order to divide and weaken the MDB.

Before leaving office, Geisel cleared the way for his successor by completing the process of 'normalisation', that is to say, returning Brazil to the *status quo ante* December 1968. On 17 October 1978 a constitutional amendment had formally reinstated the right to *habeas corpus*. The first tentative steps were taken to free some 100 political prisoners, to lift the restrictions on the return of more than 2,000 political exiles and to restore the political rights of *cassados*. On 13 December Institutional Act no. 5 (AI-5), with all the exceptional powers it conferred on the executive, was finally revoked, although some 'safeguards' remained in place, in particular, the president's right to declare a state of emergency without Congressional approval. For some historians, this technically brought an end to the military dictatorship *per se*. The authoritarian military regime, however, continued. The military would remain in power for another six years.

MARCH 1979–MARCH 1985

President João Batista Figueiredo, the fifth (and, as things turned out, the last) military president, was sworn into office on 15 March 1979, with General Golbery remaining as head of the *Casa Civil* and Figueiredo's chief political counsellor as he had been Geisel's. The new president reaffirmed his commitment to his predecessor's political strategy of transition, liberalisation, opening – in his inauguration speech he spoke of making Brazil a democracy (*fazer desse país uma democracia*). One of his first measures was to send an amnesty bill to Congress. The bill was deliberately ambiguous. It referred to crimes committed with political motivation by opponents of the military dictatorship, including former armed guerrillas, but left open the possibility that 'connected crimes (*crimes conexos*)', the actions of those responsible for their repression, would also go unpunished. It was generally regarded, not least by the regime, as *uma lei para torturados e torturadores* [a law for both the tortured and the torturers]. (And it is important to note that since the passage of the amnesty bill, no Brazilian military officer has been legally charged with having committed the crime of the torture of political prisoners during the military dictatorship.) The amnesty bill became law in August – depriving the Opposition of one of its principal banners. By September prominent exiles – including Leonel Brizola, Luís Carlos Prestes and Miguel Arraes – were beginning to return.

In November 1979 Congress approved a law for the reform of the party system. The new law, a project of Minister of Justice Petrônio Portella (who died the following January), abolished the two-party system and, consequently the two existing parties, ARENA and MDB, and permitted (indeed encouraged) the creation of new parties. The 'reform' was, of course, another example of political engineering, this time aimed at splitting the opposition, thus preventing a potential victory for the MDB in the 1982 elections which would threaten the regime's control of the presidential succession in 1985. While on the one hand the Partido Democrático Social (PDS), the new government party, retained most of the old ARENA and therefore an absolute majority in both houses of Congress, the opposition found itself divided into four: the Partido do *Movimento Democrático Brasileiro* (PMDB) consisting of the bulk of the old MDB; the Partido Popular (PP) led by two *mineiro* politicians – Magalhães Pinto, the former governor of Minas Gerais, and Tancredo Neves, the former Prime Minister – and consisting of dissident *arenistas* (many of them ex-UDN) and

some moderate members of the MDB, who favoured a transition to civilian rule but more gradual than that wished for by the majority of the PMDB; the Partido Trabalhista Brasileiro (PTB) led by São Paulo federal deputy Ivete Vargas, the niece of Getúlio Vargas, whose creation was inspired by Golbery determined to deny Leonel Brizola the use of the historic party name; and the Partido Democrático Trabalhista (PDT), the name Brizola was forced to adopt in his attempt to reconstruct the old PTB.

Another development (less desirable from the regime's point-of-view) was the creation of a fifth opposition party, the Partido dos Trabalhadores (PT), the only party born outside Congress without ties to the traditional 'political class'. The final year of Geisel's administration had witnessed a resurgence of the labour movement after ten years of repression by the military, with a major strike by the *metalúrgicos* of the ABC industrial belt of São Paulo in May 1978. It began with 1,600 auto workers at the Saab-Scania plant and quickly spread to Ford, Volkswagen, Mercedes-Benz, Chrysler, and other factories in six states and the Federal District. This strike signalled the birth of '*novo sindicalismo*' (new unionism) and projected Luiz Inácio da Silva, known as Lula, the leader of the metalworkers' union of São Bernardo and Diadema, on to the national stage. It was followed by a general strike in March 1979 which mobilised three million workers in industry, mining, urban services, banking, civil construction and education in fifteen states. The movement was driven by elected union leaders from within the official state structure (still bound by the Labour Code of 1943) who demanded union autonomy, the right to strike, free collective bargaining, and toleration of interunion organisations. And it was not long before they came to the view that the movement had no future linked to the MDB. It needed its own political arm. In February 1980 the PT was officially formed by Lula and other 'authentic' union leaders together with progressive Catholic activists from the *comunidades eclesiais de base*, former urban and rural guerillas, left-wing intellectuals, and members of small (illegal) Trotskyist parties. The parties of the Communist Left, which were also illegal, continued to work as far as possible within the MDB, now PMDB.

Tables 3.5 and 3.6 show the composition of the the Chamber of Deputies and Senate following the party reform. As the regime had intended the MDB lost almost half its deputies to the four new 'opposition' parties and the PDS. The PMDB picked up only six ARENA deputies. ARENA transferred 193 of its 231 deputies to the PDS which also took 22 from the MDB.

Table 3.5. *The Chamber of Deputies after the Party Reform of 1979–1980*

New parties	Origin		Total	
	ARENA	MDB	N°	%
PDS	193	22	215	51.2
PMDB	6	109	115	27.4
PP	28	41	69	16.4
PDT	0	10	10	2.4
PT	0	5	5	1.2
PTB	3	1	4	1.0
No party	1	1	2	0.5
Total	231	189	420	100

Source: Maria D'Alva Kinzo, *Legal opposition politics under authoritarian rule in Brazil* (Oxford, 1988), p. 209, table 8.1; Schmitt, op. cit., p. 51, table 7.

With the end of the two-party system, the municipal elections scheduled for November 1980 were postponed on the grounds that the new political parties were unprepared. The existing mayors and municipal councils would continue in office for two more years. This move, approved by the government majority in Congress, had a negative effect on the process of political liberalisation, signalling it could be argued a *retrocesso*. There would now be no elections of any kind for three years. At the same time, however, by constitutional amendment no. 15 (19 November

Table 3.6. *The Senate after the Party Reform of 1979–1980*

New Parties	Origin		Total	
	ARENA	MDB	N°	%
PDS	35	1	36	53.7
PMDB	2	20	22	32.8
PP	4	4	8	11.9
PDT	0	0	0	0
PT	0	0	0	0
PTB	0	0	0	0
No party	0	1	1	1.5
Total	41	26	67	100

Source: Schmitt, op. cit., p. 51, table 8.

1980), Congress restored direct elections for state governor in 1982 after three successive elections in which they had been indirectly elected by state assemblies. This was undoubtedly a liberal move, but one forced on the military in part by the fact that it no longer controlled some of the most important state assemblies. A third of the Senate would also be directly elected in 1982. The 'bionic' senators had been indirectly elected in 1978 to serve for eight years. There would, however, be no new *biônicos* elected in 1986.

Divisions in the military persisted under Figueiredo. The *castelista* group was not hegemonic, and the hardliners, especially in the repressive apparatus, remained influential and capable of destabilising the regime. In the first eight months of 1980 there were a number of attacks on newsstands which sold newspapers of the Left, and a letter-bomb was sent to the office of the president of the Bar Association (OAB), killing a secretary. It seemed at the time that politically *fechamento* was just as likely as further progress towards *abertura*. Then came the Riocentro incident. On the night of 30 April 1981 an Army captain was seriously injured and an Army sergeant died when a bomb they carried exploded accidentally inside their car at the Riocentro, a large convention centre on the outskirts of Rio de Janeiro. They were wearing civilian clothes and had just arrived at the scene of a large popular concert being held on the eve of Labour Day. The episode demonstrated that there still were groups of military officers linked to the repressive and intelligence military units who wanted to destabilise the process of political liberalisation. In an effort to protect the military, President Figueiredo accepted the result of an internal investigation that cleared the captain and the sergeant and, against the advice of Golbery and former president Geisel, decided not to take the matter further.

One immediate consequence of the Riocentro affair was the resignation (on 6 August) of General Golbery as head of the *Casa Civil* (a post he had held since March 1974). Golbery was replaced by João Leitão de Abreu, a *gaúcho* lawyer who had held the same post under Médici and had links to the hardliners in the military. This left a vacuum in the political coordination of the *distensão* project and might therefore be seen as a serious setback to its implementation. At the same time, however, the Riocentro episode marked the end of the activities of military or paramilitary groups directed against political liberalisation. It also removed General Octávio Aguiar de Medeiros, the hardline head of the SNI and personal friend of Figueiredo, from the presidential succession. Indeed it could be argued that no military candidate was viable after the Riocentro debacle. Indeed, it

produced a deep aversion among many sections of Brazilian society towards the continuation of military rule.

Figueiredo's government was already deeply demoralised when, in September 1981, Figueiredo suffered a heart attack which kept him out of government for several weeks. In sharp contrast to August 1969 when President Costa e Silva was incapacitated by a stroke and Vice-President Pedro Aleixo was denied the right to replace him, Vice-President Aureliano Chaves, supported by Army minister Walter Pires de Albuquerque, was permitted to take office, thus becoming the first civilian since 1964 to exercise (restricted) presidential powers. Figueiredo returned early in November but, according to the testimony of many colleagues, the heart attack contributed significantly to the president's loss of *ânimo* (spirit) during the remainder of his term of office and is thus one factor explaining how the military regime 'lost the plot' in 1983–1984 and eventually had no alternative but to relinquish power in March 1985.²⁸

In spite of the attempts by the Right to destabilise the regime, the process of political *normalização* continued, but with the regime doing everything in its power to guarantee continued control of the political process. Having restored a multiparty system aimed at weakening the MDB and dividing the opposition to the regime, two *pacotes* of constitutional amendments introduced yet more changes to the electoral rules in advance of the 1982 elections that would determine the composition of the Electoral College that would choose the president in January 1985. The first, in November 1981, banned alliances between parties and introduced the *voto vinculado* (the 'straight ticket' vote, requiring the voter to vote for a single party at all levels from municipal councillor to state governor). The PDS stood to benefit from both measures: the ban on party coalitions because it prevented, for example, the PMDB and the PP joining forces; the *voto vinculado* because the strength of the PDS at the municipal level was expected to produce a 'reverse coattails' effect. The response of the PP was to declare itself unviable in these new circumstances, and in February 1982 it dissolved itself. A handful of its deputies went to the PDS and to the PTB, but the majority merged with the PMDB, which thus overnight increased its representation in Congress from 115 to 168 while the PDS

²⁸ Former president Geisel gave the following judgement on his successor in a series of interviews in 1993–1994: 'I thought he should have resigned. But no! On the contrary he resolved to continue. The reality is that after the heart attack he became another man, he lost interest in many government matters'. Celso Castro and Maria Celina D'Araújo, *Ernesto Geisel* (Rio de Janeiro, 1997), p. 434.

bancada only grew from 215 to 224).²⁹ The four opposition parties that remained – PMDB, PDT, PTB and PT – would not, however, be permitted to form alliances against the PDS in the 1982 elections.

The second *pacote*, in June 1982, was also designed to benefit the PDS. In the first place, it increased the size of the Chamber from 420 to 479 (with a minimum eight seats per state); the PDS which was stronger in the more numerous, less populated states of the North, the Centre-West and the Northeast (almost 40 percent of its electoral strength came from the Northeast) than in the Southeast and South. Secondly, it changed the rules of representation for state assemblies in the Electoral College: instead of the number of delegates being determined by the population of each state (with a minimum of four from each) and proportional to the strength of the parties in each state assembly, there would now be six per state and all from the majority party in each assembly; the PDS controlled more states than any other party. Finally, the June 1982 *pacote* confirmed that, while state governors would now be directly elected, presidents would continue to be elected indirectly, and the majority in Congress needed for any constitutional change in favour of direct presidential elections was raised from 50 percent to two-thirds.

In the elections of 15 November 1982, forty-eight million Brazilians went to the polls to vote for state governors, Congress (the entire Chamber and one-third of the Senate), state assemblies and municipal councils and some *prefeitos* (as a result of the postponement of the local elections in 1980). In the gubernatorial elections – the first direct elections for governor since October 1965 – the opposition parties polled 58 percent of the valid vote, (i.e., in the case of elections for executive posts votes for candidates, excluding both *votos em branco* and *nulos*, which together accounted for a little more than 10 percent of the vote), of which the PMDB had 44 percent (19.1 million) and the PDT, PTB and PT together had 14 percent (6.2 million) – shared fairly evenly. The PDS won 42 percent of the votes (18 million). The Opposition won the governorships of ten states which together comprised 60 percent of the country's population and 75 percent of its GDP. The PMDB won nine of them, including São Paulo (André Franco Montoro with more than 50 percent of the vote) and Minas Gerais (Tancredo Neves), the PDT one: Rio de Janeiro (Leonel Brizola). The PDS won in twelve of the twenty-two states, but mostly in the Northeast, North and Centre-West, apart from Rio Grande do Sul where

²⁹ Kinzo, op. cit.; p. 212.

Table 3.7. *Elections of November 1982*

	State Governors	Senate	Chamber of Deputies
PDS	12	15	235 (49.1%)
PMDB	9	9	200 (41.8%)
PDT	1	1	23 (4.8%)
PTB	0	0	13 (2.7%)
PT	0	0	8 (1.7%)
Total	22	25	479

Source: Schmitt, op. cit., p. 56, table 9, citing Jairo Marconi Nicolau, *Dados eleitorais do Brasil, 1982–1996* (Rio de Janeiro, 1998).

the opposition vote was split between the PMDB and the PDT. The governor of the newly created state of Rondônia was appointed by the military.

In the Senate elections, despite losing the popular vote, the PDS won a majority of the seats, fifteen (including three for the new state of Rondônia), to the PMDB's nine, with one seat going to the PDT. See Table 3.7. The PDS therefore retained a two-thirds majority in the new Senate because of the seats it won in 1978 and, more particularly, because of the twenty-two *biônicos*. In the 1983–1986 Senate the PDS had forty-six seats (exactly two-thirds), the PMDB twenty-one, and the PDT and PTB one each. Senator Nilo Coelho (PDS-Pernambuco) died at the end of 1983. His alternate, elected in 1978 for ARENA, had since joined the PP and then the PMDB. The PDS thus lost its two-thirds majority in the Senate.

For the Chamber of Deputies the PDS polled 17.8 million votes (43.2 percent of the valid vote), the PMDB 17.7 million (43 percent) – and the three smaller opposition parties a further 5.7 million (13.8 percent). The PDS, however, won 235 seats (49 percent), the PMDB only 200 (42 percent). But with twenty-three PDT deputies, thirteen PTB and eight PT (six of them from São Paulo which accounted for 72 percent of the PT's national vote) the opposition parties had 244 seats in all. See Table 3.7. Thus, the government party had lost not only the popular vote – overwhelmingly in cities with populations more than 100,000 and more generally in the urbanised and industrialised South East and South – but also for the first time under the military regime a majority of seats in the Chamber of Deputies. Nevertheless, the PDS remained the largest party and, with the opposition parties divided on many issues, immediately opened negotiations with the

PTB to strengthen its position, and soon restored its absolute majority in the Chamber.

Most important of all from the regime's point of view was the fact that it had successfully secured a majority of seats in the Electoral College which would meet in January 1985 to elect the next president. The Electoral College would consist of 69 senators, 479 federal deputies and 138 state deputies – a body of 686 members. The PDS, with 235 federal deputies, 45 senators and 81 delegates from the state legislatures, would be expected to deliver 361 votes, giving the government a small but comfortable majority of 17. The change in the rules for the composition of the state delegations to the Electoral College introduced in the June 1982 *pacote* (six from each state, all six from the majority party in each state assembly) had proved crucial. The PDS had overall control of thirteen states (and shared with the PMDB control in one, Mato Grosso do Sul); the PMDB controlled eight, the PDT one (Rio de Janeiro). Under the previous rules established by the April 1977 *pacote* the combined opposition parties, it has been calculated, could have looked forward to a majority of five in the Electoral College.³⁰ Another victory for *casuismo*! The military regime was safe, it seemed, without any further changes to the existing rules of the games – at least until 1990.

This was an illusion, of course. With the resurgence of civil society in the late 1970s – not now only the Church but also labour unions, student unions, and associations of the liberal professions like the OAB and the Brazilian Association for the Advancement of Science (SBPC) – there was increasing pressure on the regime from below to speed up the process of *abertura*, top-down liberalisation, initiated by Geisel in 1974 and continued by Figueiredo in 1979, leading, it was hoped, to a final transition from military to civilian rule and the establishment of democracy. Brazil at this time was also facing its most severe economic and financial crisis for half a century, which deprived the military of the political dividends of the economic 'miracle', especially with business and the middle class. Brazil had suffered a major external 'shock' in 1973–1974 when world oil prices increased fourfold. (Brazil then produced only 20 percent of its oil consumption.) The Geisel administration had, however, pursued a high-risk strategy for growth, based to a large extent on increased borrowing, and

³⁰ David Fleischer, 'Brazil at the crossroads: the elections of 1982 and 1985', in Paul W. Drake and Eduardo Silva (eds.), *Elections and democratization in Latin America, 1980–85* (San Diego, 1986), p. 319.

growth had been maintained to 1980, though at a lower rate than before: 7 percent per annum. With a second external ‘shock’ in 1979–1980 as world oil prices doubled again, U.S. interest rates rose steeply, and capital inflows came to a halt, Brazil entered a debt-induced recession. GDP *declined* 4.9 percent in 1981–1983; the annual rate of inflation reached 100 percent in mid-1982; unemployment increased, wages and salaries were squeezed. Negotiations with the IMF and the private banks in late 1982 led to cuts in public expenditure which deepened the recession. Growth recovered to some extent in 1984, but annual inflation reached 200 percent.³¹

The international political context was also unfavourable to the continuation of Brazil’s military dictatorship: both Europe and Latin America – first Spain and Portugal, then Ecuador, Peru, Bolivia and Argentina – were experiencing the ‘third wave’ of democratisation. But the ‘contagion’ effect of democratisation and the illegitimacy of authoritarian rule elsewhere should not be exaggerated. And there is little evidence of direct (or indirect) intervention by external actors in Brazil’s transition from civil to military rule. The United States, in particular, played nothing like the role it had played in regime change in Brazil in 1945 and 1964. Langhorne Motley, the U.S. ambassador at the time, put it bluntly thus:

The United States played no role in *abertura*. In the period of time that I was in Brazil, 1981 through 1984, I always counselled Washington, and for once they took my advice, that *abertura* was made in Brazil, and both from a public and private posture the United States was better off staying out of it. The Brazilians defined what *abertura* was and what the timetable was to be. All we did was applaud the process. There was no secret agenda of U.S. involvement either. We stayed out of *abertura* because the dumbest thing we could have done was to have been in the middle of it, although we did insist on the right to talk to opposition groups and to deal with all factions of society, including the Church.³²

³¹ On the economic recession of the early 1980s, see Chapter 6 in this volume.

³² L. A. Motley, ‘Letting off steam’, in H. Binnendijk (ed.), *Authoritarian regimes in transition* (Washington, DC, 1987), quoted in Andrew Hurrell, ‘The international dimensions of democratization in Latin America: the case of Brazil’, in Laurence Whitehead (ed.), *The international dimensions of democratisation* (Oxford, 1996), pp. 150–1. Hurrell’s essay is the best study of the international aspects of the transition from military to civilian rule and democracy in Brazil. He concludes: ‘The extent of direct external involvement in the processes of transition and consolidation and the scope for direct external influence have been limited and are probably less than in any other major Latin American country. Viewed in terms of direct influence, the case of Brazil reinforces one of the central conclusions of the literature on democratisation, namely that external factors are of secondary, or even marginal, importance in shaping domestic outcomes in Latin America. . . . The limits to the power of the external remain significant and the Brazilian case provides evidence for the entirely

The direct elections for state governors in 1982, and the victories for the opposition parties, had inevitably increased popular expectations that presidential elections would be direct in 1984. Indeed opinion polls in April 1983 indicated that 74 percent of the population (85 percent in the state capitals) supported immediate direct presidential elections. Opposition politicians who had been concentrating on the (remote) possibility of winning the presidency indirectly in the Electoral College and who imagined that direct presidential elections could only follow elections for a Constituent Assembly sometime in the distant future were presented with a new, highly popular cause: *diretas já* (direct presidential elections *now*).

Soon after the opening of the new Congress (on 2 March 1983) federal deputy Dante de Oliveira (PMDB- Mato Grosso), an ex-militant of the MR-8, had introduced a constitutional amendment (*emenda*) calling for direct presidential elections in 1984. The amendment (only 15 lines), signed by 23 senators and 177 deputies, mostly from the PMDB and the PDT, also called for these elections to be based on *universal suffrage*. What followed was the creation of a national political movement in favour of *diretas já* that mobilised ever increasing numbers in the major cities and gained growing support right across the political spectrum. Initial support came from the political Left broadly defined (the left wing of the PMDB, the PT, but also the illegal Communist Parties, PCB and PC do B) and a wide range of associations representing the Church (both the CNBB and the CEBs), students (the UNE), lawyers (the OAB) and workers (the CONCLAT, the labour confederation linked to the PMDB and, after its creation in August 1983, the Central Única dos Trabalhadores, CUT, linked to the PT).

Opposition leaders in Congress remained somewhat reluctant to confront the military government head-on. None embraced *diretas já* immediately and unreservedly. Even the politician who became their most prominent advocate, Ulysses Guimarães, the president of the PMDB and potentially the principal beneficiary of direct presidential elections, acted with some caution. He eventually launched the national campaign in June in Goiânia. The campaign then moved to Cuiabá, Porto Alegre, Piracicaba, Ilhéus and Recife before reaching the larger urban centres. Some leading figures on the Left/Centre-Left – Miguel Arraes, Saturnino Braga and Fernando Henrique Cardoso – were initially critical of the *diretas já*

plausible proposition that international influences – direct, indirect, and contextual – have less impact on very large, relatively closed societies than on smaller, more open, and more vulnerable states’.

campaign because, in their view, it distracted attention from the need to confront Brazil's fundamental structural problems, economic and social, which was the key to successful democratisation; they only joined the campaign at a later stage. Some of the newly elected opposition governors (in particular, Franco Montoro in São Paulo, Brizola in Rio and Tancredo Neves in Minas Gerais) initially gave only mild support to *diretas já*, thus situating themselves in opposition to the military regime without resorting to overt confrontation. They feared a hardening of the regime if it were provoked. They did not believe that the 1983 Congress could be persuaded to vote for what amounted to the end of the dictatorship. Nor would the military would permit it. And there remained the possibility of launching themselves as potential candidates for the presidency in *indirect* elections should the *diretas já* campaign fail.

By the end of 1983, however, *diretas já* had become a mass movement, the biggest and most intense popular mobilisation in Brazil since 1945. Between November 1983 and April 1984 some 50 *comícios* were held, many of them attracting crowds of hundreds of thousands: for example, on 25 January in the Praça da Sé in São Paulo with Ulysses Guimarães, Franco Montoro, Fernando Henrique Cardoso and Luis Inácio Lula de Silva together on the platform; in front of the Candelária Church in downtown Rio de Janeiro on 10 April 1984 (which the organisers estimated mobilised 800,000 people); and on 16 April at Anhangabaú in the city of São Paulo (one million people). Eighty percent of the population was now in favour of direct presidential elections. Leading figures in the business community supported the movement as did the larger newspapers and TV Globo. Seven of the thirteen PDS state governors declared in favour of *diretas já*, as did Vice-President Aureliano Chaves. The President's chief of staff, Leitão de Abreu, seemed to accept the principle of direct presidential elections – but not until 1990. In an interview with the *Folha de São Paulo* on 18 November 1983 President Figueiredo said that he supported the Dante amendment – but unfortunately his party did not!

When the day arrived, 25 April 1984, against a background of popular demonstrations throughout the country, the constitutional amendment proposed by Dante de Oliveira to permit direct presidential elections in 1984 secured a majority of the votes in the Chamber of Deputies, but failed by twenty-two votes to secure the necessary two-thirds majority (320). Two hundred and ninety-eight voted in favour, including fifty-five PDS deputies who ignored immense pressure from the government to vote against – the first sign of cracks in the unity and discipline of the government

party. Sixty-five voted against, and there were three abstentions. No fewer than 113 deputies were absent. The government had avoided defeat in the Chamber – in part by taking such steps as banning radio and television access to Congress, closing roads leading to Brasília, holding incoming passengers at Brasília airport, and cutting off the office telephones of many Congressmen for several hours. The *emenda* would not, however, in any case have passed in the Senate: it would have needed the defection of more than half the PDS senators to give its supporters a two-thirds majority. Despite widespread disappointment at the fate of the Dante amendment there was no significant social protest against the regime, and none was organised by the opposition parties which meekly accepted what they had always thought was inevitable. The presidential elections in 1985 would be indirect – by an Electoral College in which the PDS, it seemed, had a secure majority.

Although the Figueiredo government had headed off the threat of direct elections in 1984, and its likely outcome (a victory for Ulysses Guimarães, although it was a victory for Brizola the military feared most), there was no disguising the fact that the regime had lost the argument and had suffered, in the phrase of Luciano Martins, an ‘internal defeat’, though not, of course, as severe as the external defeat suffered by the Argentine military regime in the Falklands/Malvinas war of 1982 leading to its downfall the following year. The military regime’s legitimacy, its credibility and the prospects for its long-term survival were increasingly being questioned and challenged by the political opposition and by large sections of civil society. After nearly twenty years in power, the regime was suffering from fatigue. It was no longer clear, even to itself perhaps, why and with what justification the military remained in power. Never entirely united, the Brazilian military was now in disarray: factionalised, increasingly accused of incompetence and corruption, lacking firm leadership and without a coherent political strategy.

In these circumstances it is not surprising that the regime lost control of the presidential succession process in 1984. President Figueiredo announced in December 1983 he would not coordinate the campaign to choose his successor; he would leave the decision to the PDS. The ruling party had already decided that a *civilian* candidate was now inevitable if it was to win over the more moderate, liberal-conservative sectors of the opposition and the dissidents within its own ranks. Although public opinion in general was by now tired of military rule, it was not necessarily hostile to civilian politicians associated with the regime. For instance, a poll in the *Folha de*

São Paulo in October 1983 in which people were asked their preferences for president showed that Aureliano Chaves, vice-president, a former governor of Minas Gerais, and a natural civilian candidate for the government party, was much more popular than either Ulysses Guimarães or Leonel Brizola, the two main opposition leaders. He had the approval of 70 percent of those polled. In the military Chaves was supported by former president Geisel and several leading *castelistas*, but not by President Figueiredo, nor by the principal hardliners. The other leading civilian pre-candidates for president on the government side included Interior Minister Mário Andreazza (who was more an *anfibio* than a civilian because he had served thirty-seven years in the military and was now a colonel in the reserves) and *paulista* federal deputy Paulo Maluf, a wealthy businessman, friend of Costa e Silva, former mayor of São Paulo and governor of the state of São Paulo (both unelected), who was frequently accused of corruption. Maluf was by far the most divisive of the candidates. When it became clear that Maluf was likely to win the nomination, the liberal wing of the PDS, which included Vice-President Chaves and senators Jorge Bornhausen (Santa Catarina), Marco Maciel (Pernambuco) and Carlos Chiarelli (Rio Grande do Sul) and was not insignificant (it won 35 percent of the vote in elections for the party executive in July), formed an anti-Maluf Frente Liberal. Even before Maluf won a narrow victory 493–350 (against Andreazza) at the PDS Convention in August to become the ‘official’ candidate for the presidency in 1985, the PDS dissidents had initiated discussions with the PMDB about a suitable joint candidate of the Opposition. The government party had ‘imploded’.

For its part the PMDB, in the aftermath of defeat for *diretas já*, had already decided to go to the Electoral College with a candidate of its own. And to calm the military and attract support from potential PDS dissidents it had in June 1984 launched as its candidate not Ulysses Guimarães, president of the MDB/PMDB since 1971 and the MDB’s anti-candidate in 1973 (Ulysses was persuaded by PMDB state governors led by Franco Montoro of São Paulo that it was in the best interests of the party and the country that he should not be the candidate) but the veteran seventy-four-year-old governor of Minas Gerais Tancredo Neves. Tancredo had had thirty years’ experience in public life. He had been Vargas’ Minister of Justice in 1954 and Goulart’s first Prime Minister in 1961. Affiliated to the PSD during the Liberal Republic, he had joined the MDB in 1966, moved to the short-lived PP after the party reform of 1979, joined the PMDB after its merger with the PP in February 1982 and elected governor of Minas in November. Under the *Acordo de Minas* Aureliano Chaves, a

fellow *mineiro*, and the other leaders of the Frente Liberal agreed to form an Aliança Democrática with the PMDB in support of Tancredo Neves. They were assured Tancredo would neither campaign as the 'Opposition', nor criticise the 'Revolution'. And his running mate would be former ARENA and now PDS Senator for Maranhão, José Sarney, who had been national president of the PDS from 1980 until June 1984 when he resigned to help found the Frente Liberal. Since the FL was not yet registered as a political party, Sarney formally joined the PMDB. Eight of the nine PDS governors in the Northeast and the PDS governor of Rio Grande do Sul declared their support for the Neves–Sarney ticket.

Tancredo Neves clearly had the votes to win the presidency in the Electoral College in January. But there was still a danger that the military would not permit the election of an opposition civilian politician, albeit a 'moderate' opposition politician. Intense negotiations took place between the Neves group and the military high command during the final months of 1984, and a number of informal deals were struck. There would be no revanchism against the military for its acts during the most repressive period of military rule. Its privileges and prerogatives would be maintained. General Leônidas Pires Gonçalves would be Army Minister and General Ivan de Souza Mendes head of the SNI in a Neves government. There would be no popular, directly elected Constituent Assembly: the Congress to be elected in 1986 under the existing rules (i.e., a legislative body in the hands of the dominant political class) would formulate a new Constitution for postmilitary Brazil. Tancredo's cabinet would include PDS and former PDS as well as PMDB politicians. Even so there was a last-ditch conspiracy for a preemptive coup to delay the election and the military's return to barracks, supposedly involving among others General Octávio Medeiros, the head of the SNI (whose own earlier presidential ambitions had been disappointed), the Army minister General Walter Pires and the military commander of Brasília General Newton Cruz, on the pretext that Tancredo was a 'communist' or at least a communist sympathiser. (He was in fact supported by the PCB and the PC do B.) In defusing the threat of a *golpe* (never very likely) and guaranteeing Tancredo's election the role of former president Geisel and the generals with troops at their command, notably General Leônidas Pires Gonçalves, was critical.

On 15 January 1985 the Electoral College duly elected Tancredo Neves president by 480 votes to 180 votes. Voting for Tancredo were all but 5 of the PMDB delegates, 113 PDS dissidents of the Frente Liberal (which declared itself a political party, the Partido da Frente Liberal, PFL, immediately after

the election), 55 'independent' PDS delegates not affiliated with the Frente Liberal and 20 of the 21 delegates of the PDT (which had not formally joined the Aliança Democrática). The PDS vote for Maluf was exactly half that anticipated in the optimistic days following the 1982 elections. Nine delegates were absent and seventeen abstained. The PT abstained in a protest against indirect elections; the three PT delegates who voted for Neves in the Electoral College were later expelled.

By an extraordinary twist of fate, the outcome was even better for the outgoing military regime than it could ever have hoped. On the eve of his inauguration, 14 March, President-Elect Tancredo Neves was taken gravely ill and admitted to the Hospital de Base in Brasília. Urgent discussions took place throughout the night on the constitutional and political implications of this unexpected turn of events. They involved President Figueiredo, his Chief of Staff Leitão de Abreu, the political leaders of the PMDB, PDS and PFL, the president of the Supreme Court, Army minister General Walter Pires and incoming minister General Leônidas and, not least, José Sarney. Some argued that under the Constitution, since neither the President-Elect Tancredo Neves nor the Vice-President-Elect José Sarney had actually taken office, the president of the Chamber Ulysses Guimarães was next in line and should assume the presidency. Ulysses was reluctant, not least because of his past as the leading opponent of the military dictatorship. No less reluctant was Sarney who was after all the former president of the ruling party under the military regime. He feared the political repercussions – as well as, he later claimed, feeling inadequate and ill prepared for the task. In the event Sarney was sworn in as interim president the next morning, 15 March 1985. It was, of course, expected that Neves would recover. But the president-elect never became president. His health deteriorated slowly during the second half of March and the first half of April and, after undergoing seven bouts of surgery, he finally died on 21 April (Tiradentes Day). In this way, against all the odds, José Sarney became the first civilian president of Brazil in more than two decades, bringing to a close twenty-one years of military rule in Brazil.

CONCLUSION

The process of liberalising Brazil's authoritarian military regime after March 1974 when Ernesto Geisel assumed the presidency and unexpectedly announced his project for the slow, gradual and secure 'decompression' and 'opening' of the political system was, like the liberalisation of the Estado

Novo in 1945, initiated and for the most part (even in the final stages) controlled and managed from above. The principal aim was to consolidate and advance the institutionalisation of the regime, in particular by reducing the costs to military hierarchy and discipline arising from the repression carried out under the AI-5 (December 1968) – in order to *prolong* the military's stay in power. The end of military rule and the transfer of power to civilian, much less opposition civilian, politicians was not part of the original project. Certainly democracy – free, fair and competitive elections, based on universal suffrage, to decide who should govern Brazil, that is to say, given Brazil's presidential system, genuinely democratic presidential elections – was never intended to be the outcome of the liberalisation process.

Brazil's was the slowest and most complex of all the transitions from authoritarian military to civilian rule (and eventually to democracy) in Latin America in the 1970s and 1980s. Why did it take so long? Why did the military regime survive in power for more than ten years after the beginning of *abertura* announced by President Geisel in March 1974? To answer this question it is necessary to look at both the strength of the military regime, real and perceived, and the weakness of the opposition to it. Though military rule was relatively benign after 1974, the hardliners had not disappeared and there was always the threat of a return to the violent repression of the years 1968–1973 if the opposition to the continuation of the regime pushed too hard. *Fechamento* was never far away from *abertura*. At the same time, successful gerrymandering (*casuísmo*) guaranteed ARENA/PDS control of Congress, the governorships of most important states (until 1982), the most important *municípios*, and (until 1985) the Electoral College which elected successive military presidents. The 'economic miracle', though somewhat tarnished, survived the external 'shock' of 1973–1974, ensuring broad elite and urban middle-class support for the regime – at least until the second 'shock' in 1979–1980 and the subsequent severe economic recession. And the regime was not without popular support as result of increased employment, rising incomes and consumption, some improvements in *bem estar social* (housing, water, electricity), even some reduction of poverty, during the 1970s. Moreover, basic social security provision was, for first time, extended to rural workers, domestics and the self-employed. The regime did after all continue to win elections (albeit increasingly with a little help from the *pacotes*).

For its part, the MDB/PMDB, the main opposition party, for almost fifteen years the *only* opposition party, was in a sense 'co-opted' by the

concessions the military made – for example, more genuinely competitive Congressional elections in 1974 and direct elections for state governor in 1982, in which it made significant political gains. It proved in any case too timid, too cautious, too conservative, to force the early withdrawal of the military either through elections or through mass mobilisation. It might be said perhaps to have overestimated the strength of the regime and the threat posed by the military hardliners and to have underestimated the potential strength of civil society and the popular forces for democracy and social change in Brazil. It did not in the end trust the people. The groups which had advocated armed struggle for the overthrow of the regime – for which it has to be said there was never any popular support – had been destroyed by the time Geisel announced his liberalisation project.

There are several factors which help explain the military's return to the barracks in March 1985: tensions within the armed forces due to their prolonged exercise of power and conflict over the functioning of the 'intelligence community'; the evident decline in the ability of ARENA/PDS to win elections, despite the increasingly desperate attempts to fix the rules of the game in its favour; the first signs of disunity in the ruling party; the growing strength of the opposition MDB/PMDB and its striking victories in the Congressional and more especially in the direct gubernatorial elections of November 1982 – for political scientists the 'founding election' in the 'democratisation' of Brazil; the unexpectedly strong emergence of civil society, particularly in the form of new unionism and the formation of the Workers' Party (PT) from the late 1970s; the economic crisis of the early 1980s and the desertion of the middle class; the business community's signalling its readiness to abandon the regime; the changing international political context; and, not least, the extraordinary mass mobilisation in favour of *diretas já* in 1983–1984 (even though it failed). In the end, however, the military could have survived in power longer (though probably not much longer) had it not been for regime fatigue, the erosion of belief in, and justification for, its project for government, especially as the Cold War was ending, and, above all, lack of leadership, leading to loss of control of the presidential succession process, and defeat in the Electoral College constituted to elect General Figueiredo's successor as president in 1985.

The military in 1984–1985 agreed to transfer power to the more conservative elements in the civilian opposition (moderate PMDB politicians, mostly ex-ARENA/PDS now embedded in the PMDB, and the leaders of the Frente Liberal), that is to say, to the traditional political elite, after guarantees had been secured that the predominantly PMDB

civilian government that would replace the military regime would contain a fair number of PDS and former PDS politicians and would preserve the privileges and prerogatives of the military itself. Like the Liberal Republic established at the end of the Estado Novo, the New Republic was built on the institutional foundations of the authoritarian regime it replaced. Those who were anticipating simply a continuation of the military regime in a different form were, however, confounded. President José Sarney was to preside over a rapid transition to a fully fledged democracy, culminating in November 1989 in the first direct presidential elections in thirty years (and the first in Brazilian history based on universal suffrage).

POLITICS IN BRAZIL, 1985–2002

Leslie Bethell and Jairo Nicolau

INTRODUCTION

15 March 1985 witnessed a peaceful transition to civilian rule in Brazil (though not yet to a fully-fledged democracy) after twenty-one years of military rule. A *transição pactuada* was effected, the result of negotiations between the political elite and the military high command to facilitate the seamless transfer of power – *sem ruptura* – from the last of five successive military presidents since 1964 to a moderate, conservative civilian president acceptable to the military. However, Tancredo Neves, the politician elected, albeit indirectly elected, president in 1985 never took office because of a serious illness on the eve of his inauguration (from which he never recovered). It was the Vice-President-Elect, José Sarney, who became the first civilian president of Brazil in more than two decades.¹

Under the Constitution of January 1967, incorporating the various amendments to the 1946 Constitution of the Liberal Republic introduced by the military regime following the 1964 coup, presidents were indirectly elected by Congress acting as an Electoral College, in which the progovernment party, the Aliança Renovadora Nacional (ARENA), had a built-in majority and could be relied upon to vote for the military's chosen candidate. The so-called *pacote* of April 1977 (a 'package' of measures to change the electoral rules of the game in favour of the regime) introduced an important modification: the Electoral College that elected the president would also include delegates from the state legislatures, all but one of which were also controlled by ARENA. Another *pacote* in June 1982, anticipating electoral gains by the opposition parties in the elections to be held

¹ For a detailed analysis of the transition from military to civilian rule in 1985, see Chapter 3 in this volume.

in November, included a number of measures aimed at guaranteeing the continued domination of the Electoral College by ARENA (renamed the Partido Democrático Social (PDS) in 1979). Opposition to the military regime, and in particular a popular movement for *diretas já* (direct presidential elections *now*), gathered momentum, however, after the November 1982 elections, and in April 1984 a constitutional amendment that would have made elections for president direct once again only narrowly failed to achieve the necessary two-thirds majority of votes in the Chamber of Deputies (the lower house of Congress).

For the indirect presidential elections due to take place in January 1985 the Partido do *Movimento Democrático Brasileiro* (PMDB), the principal opposition party, formerly the MDB, decided to present its own (civilian) candidate, Tancredo Neves, the experienced, 74-year-old liberal-conservative governor of Minas Gerais. (The MDB/PMDB had boycotted the indirect elections for president in 1966; in 1970 it had abstained; in 1974 it had put up a token 'anti-candidate', Ulysses Guimarães, the president of the party; and in 1978 it had supported an alternative military candidate, General Euler Bentes Monteiro.) For its part the military permitted the PDS also to select a civilian candidate and at its national convention it chose, controversially, Paulo Maluf, a businessman and former governor of São Paulo (nominated by the military). Disappointed with the choice of Maluf, a group of PDS dissidents formed the Frente Liberal and joined the PMDB in an Aliança Democrática in support of Neves. José Sarney, senator for the state of Maranhão and, until the previous May, national president of the PDS, with strong ties to the military, was nominated the AD's candidate for vice-president. And because the Frente Liberal had not yet been registered as a political party, Sarney was obliged to affiliate himself with the PMDB.

On 15 January 1985 the Electoral College composed of senators elected in 1978, senators chosen by state legislative assemblies (the so-called *biônicos*) in 1978, federal deputies and senators elected in 1982, and six delegates from each of Brazil's twenty-three states elected Tancredo Neves president by 480 votes to 180 votes. His acceptance by the military had been guaranteed in advance. When Tancredo was taken ill the evening before his inauguration and rushed to the hospital, José Sarney was sworn in on 15 March as interim president. Tancredo's health slowly deteriorated, and he died on 21 April. The following day Sarney, an accidental president with less legitimacy even than Tancredo who, after all, had not himself been democratically elected, assumed full presidential powers.

The Sarney administration was not simply a continuation of the military regime in another form. In the first place, the military itself – though emerging with most of its prerogatives and privileges intact under the new institutional arrangements and offering its full support to Sarney – lost a significant degree of political power and influence, quickly and surprisingly, so after twenty-one years of military rule, and came to accept a pattern of civilian–military relations appropriate to a democracy in the post–Cold War era.² Secondly, political forces existed, within the PMDB and the Partido do Frente Liberal (PFL) (the Frente Liberal had officially launched itself as a party after the election in January), but also in civil society at large, which were determined to continue and deepen the process of political liberalisation and democratisation. President Sarney, despite some delaying tactics, was to preside over the final transition to democracy in Brazil: the November 1985 municipal elections, the November 1986 congressional and gubernatorial elections and the November 1988 municipal elections were all free, competitive and for the first time based on universal suffrage; a new democratic Constitution was promulgated in 1988, replacing the 1967 Constitution imposed by the military regime; and in November 1989 the first direct elections for president in almost thirty years were held – also based on universal suffrage for the first in the history of the Republic.

THE SARNEY ADMINISTRATION, 1985–1990

President José Sarney at the outset of his administration chose to work with the ministers he had inherited from Tancredo Neves. Before his illness Tancredo had formed a government drawn from a broad political spectrum, including representatives of the different factions of the PMDB – Waldir Pires (Social Security), Almir Pazzianoto (Labour), Fernando Lyra (Justice), Pedro Simon (Agriculture) and Renato Archer (Science and Technology); dissidents from the PDS – former Vice-President Aureliano Chaves (Mines and Energy) and Marco Maciel (Education); and independent politicians – Tancredo's nephew Francisco Dornelles (Finance). And throughout 1985, the government remained practically unaltered. In Congress – the Congress elected in November 1982 under the military regime – Sarney inherited the support of the parties that had formed the Aliança Democrática to elect Tancredo Neves in the Electoral College: the 213 deputies and 34 senators

² For an analysis of the role of the military in the period after 1985, see Celso Castro and Maria Celina D'Araújo, *Militares e política na Nova República* (Rio de Janeiro, 2001).

belonging to the PMDB and the 79 deputies (around 100 by June 1985) and 17 senators of the PDS who had adhered to the PFL, which was now the third largest party in Congress. This would have guaranteed him a comfortable and stable majority in both houses of Congress for the duration of his term in office had the coalition between the PMDB and the PFL not proved fragile. Another important source of support were the PMDB and PDS (now mostly PFL) governors elected in 1982. Only governor Leonel Brizola (PDT) in Rio de Janeiro was strongly opposed to the Sarney government.

An important step towards the democratisation of Brazil was taken on 15 May with Congressional approval of a constitutional amendment which adopted a series of measures that would affect, above all, the electoral process. First, illiterates (20–25 percent of the adult population) finally gained the right to vote, though for them registration and voting would not be obligatory, and they would not have the right to stand as candidates for office. It was a landmark measure, for although illiterates had theoretically been able to vote during the Empire (1822–1889), at least until 1881, they had been for the most part disenfranchised in practice by other barriers, and they had been legally prevented from voting during the entire 100-year history of the Republic. Brazil was the last country in South America to give illiterates the right to vote. Venezuela had done so in 1946, Bolivia in 1952, Chile in 1970 and Peru in 1980. (In Europe, Portugal was the last country to adopt universal suffrage – in 1974, following the overthrow of the dictatorship.) Secondly, direct presidential elections, suspended under the military's Constitution of 1967, were reestablished (although without at this stage a date being fixed for the next election). Thirdly, elections for mayors of state capitals and other cities prevented from holding elections during the military dictatorship were scheduled for November 1985. Fourthly, the Federal District (Brasília) was given representation in Congress (eight deputies and three senators). Fifthly, the electoral rules introduced by the military regime prohibiting party alliances in elections and prohibiting politicians from changing parties once elected were revoked. Finally, less-demanding rules for the creation of political parties were introduced and, specifically, parties of the Left that had had been banned during the military dictatorship, principally Brazil's two communist parties – the Partido Comunista Brasileira (PCB), founded in 1922, and the Partido Comunista do Brasil (PCdoB), founded in 1962 – could now be legally registered.

Throughout 1985, joining the existing parties created since the party reform of 1979 and the end of the two-party system imposed by the military

in 1966 – the PMDB, the PDS, the right of centre Partido Trabalhista Brasileiro (PTB), the left-of-centre Partido Democrático Trabalhista (PDT) led by Leonel Brizola, the Partido dos Trabalhadores (PT) led by Luiz Inácio Lula da Silva and, most recently, the PFL – no less than twenty-two new parties were registered with the Superior Electoral Court including, besides the PCB and the PCdoB, the PSB (Partido Socialista Brasileira) and the PL (Partido Liberal). The PSB, an active party between 1947 and 1965, was reorganised and secured the support of many left-wing politicians from other parties. The PL began as a Centre/Right ‘microparty’ and would only begin to gain some political expression in the mid-1990s, when it became the favourite party of politicians connected to the evangelical Universal Church.³

On 15 November 1985 elections were held in 201 *municípios*: those that had not been permitted to elect mayors during the military regime, including all the state capitals, and those created since the last municipal elections of November 1982. Nineteen million voters (one-third of the electorate) went to the polls: twelve million in nine cities with electorates of more than 500,000 – São Paulo (4.8 million), Rio de Janeiro (3.2 million), Belo Horizonte (one million), Salvador, Porto Alegre, Recife, Curitiba, Fortaleza and Belém. Illiterates were eligible to vote for the first time, but less than 100,000 registered in time to participate in the elections. Twenty-eight parties, including the two Communist parties, disputed the elections.

One of the consequences of the November 1985 elections was the weakening of the coalition between the PMDB and the PFL that provided the Sarney administration with its support in Congress, since in most *municípios* both parties presented their own candidates or supported candidates of other parties. The PMDB won in 127 (63 percent of the total), including 19 of the 25 state capitals, notably Belo Horizonte, Salvador, Curitiba and Belém – but lost in the two biggest cities, São Paulo and Rio de Janeiro, as well as Porto Alegre, Recife and Fortaleza. In São Paulo, the PMDB stronghold, the party’s candidate for mayor, Senator Fernando Henrique Cardoso, who was ahead in all opinion polls throughout the campaign, ended up being defeated by former president Jânio Quadros, the candidate of the PTB, also supported by the PFL and the PDS. The PFL, which was disputing its first election, won in twenty-five cities (12 percent of the total), overtaking the PDS to become for the first time the leading party of the Centre-Right, but took no state capital. The PDS

³ A list of all the new parties created in 1985 can be found at: www.iuperj.br/deb.

elected twenty-two mayors (11 percent), but only one state capital (São Luis, Maranhão). After twenty years in power, ARENA/PDS had all but disappeared in Brazil's big cities. Together the parties of the Right/Centre-Right – PDS, PFL and PTB – captured only 28 percent of the votes. With 26.5 percent of the vote, the parties of the Centre-Left/Left performed well in the big cities: the PDT won in Rio de Janeiro (Saturnino Braga) and in Porto Alegre (Alceu Collares), traditional *trabalhista* strongholds, and came second in Recife and Curitiba; the PT won in Fortaleza (Maria Luiza Fontenelle), came second in Vitória, Goiânia and Aracajú, and received 20 percent of the vote in São Paulo; the PSB won in Recife, with Jarbas Vasconcelos, a PMDB dissident.⁴

In February 1986 Sarney was for the first time forced to make cabinet changes since many ministers left office to become candidates in the November 1986 Congressional elections. The new cabinet marked a distinct shift to the Right. It had fifteen ministers from the PMDB, but from the more conservative wing of the PMDB, and five from the PFL (including Aureliano Chaves, Antônio Carlos Magalhães and Marco Maciel; the latter was given the key post of Casa Civil). Twelve ministers had, like Sarney himself, voted against the constitutional amendment for direct presidential elections in April 1984; six of them had served as state governors under the military dictatorship. Sarney had taken the opportunity to distance himself further from the 'authentic' PMDB, and expand his own power base. The government had 'removed its mask', said Raymundo Faoro, one of Brazil's leading jurists and political scientists (the author of the classic *Os donos do poder*) in the magazine *Veja*. 'There has not been any [democratic] transition. The elimination of the authoritarian debris was just a slogan'. 'Ruling Brazil today', said Senator Fernando Henrique Cardoso, from the left of the PMDB, in the magazine *Senhor*, 'are the moderate wing of the army and the liberal wing of the former government, plus a group of [Sarney's] friends; the New Republic is the same as the Old Republic [under the military]'.⁵

During the last years of the military regime, opposition forces had reached an agreement on the necessity for a new Brazilian constitution. However, there was divergence about it would be drafted. The parties of the Left/Centre-Left, above all the PT and the PDT, and factions within the PMDB led by Ulysses Guimarães, still president of the party, defended

⁴ Complete electoral results for this period can be found at: <http://jaironicolau.iuperj.br>.

⁵ Quoted in William C. Smith, 'The travail of Brazilian democracy in the "New Republic"', *Journal of Inter-American Studies and World Affairs* 28/4 (Winter 1986–1987), p. 59.

the convocation of a constituent assembly whose representatives would be chosen exclusively to draft the new charter and which would be dissolved upon the completion of its task (as in 1933–1934). Moderate factions of the opposition led by Tancredo Neves were in favour of transforming the Congress into a constituent assembly (as in 1891 and 1946). The latter view prevailed, and in May 1985 President Sarney sent Congress a project proposing to transform the Congress elected in November 1986 into a national constituent assembly. The project was approved in November. And in the course of 1986, for the first time since 1956–1957, a re-registration (*recadastramento*) of the Brazilian electorate was conducted with the intention of eliminating multiple registrations (a major cause of electoral fraud) and removing the large number of dead persons on the voter-registration lists. Voter registration was nationally computerised and centralised, and a new voting card (*título eleitoral*) was created. Of the voters now registered, 10 percent were illiterate. Thus more than half of Brazil's illiterates were still not registered to vote. Nevertheless, the number of registered voters increased 11 percent – from 61.8 million (1985) to 69.3 million (1986).

The 1986 Elections and the National Constituent Assembly, 1987–1988

In November 1986, elections were held for the Chamber of Deputies and two-thirds of the Senate, for state governors – the second direct and the first 'free' gubernatorial elections since 1962 – and for state legislative assemblies. All were based for the first time in Brazilian history on universal suffrage. The elections were strongly influenced by the high popularity of the Sarney administration at the time. The Cruzado Plan had reduced monthly inflation from 14.5 percent in February to less than two percent by October, and as a result Sarney's personal ratings, which had fallen dramatically between April and December 1985, had risen equally dramatically between March and November 1986. The PMDB, the most organised party in Brazil and the dominant force in Sarney's government, which had begun to attract many Centre/Centre-Right politicians from the PFL and the PDS, was the big winner. It secured the biggest victory ever won in free Congressional elections by any party in modern Brazilian history. At the same time it elected the governors of every state except Sergipe, where the PFL was victorious. Only three governors (Miguel Arraes in Pernambuco, Waldir Pires in Bahia and Pedro Simon in Rio Grande do Sul) came, however, from what might be called the progressive wing of the PMDB.

Table 4.1. *Election Results for the Chamber of Deputies (1986–1998)*

Parties	1986	1990	1994	1998
	Seats			
PMDB	260	108	107	83
PFL	118	83	89	105
PSDB	—	38	63	99
PT	16	35	49	58
PDS/PPR*/PPB**	33	42	51*	60**
PDT	24	46	34	25
PTB	17	38	31	31
PL	6	16	13	12
PCB/PPS***	3	3	2***	3***
PC do B	3	5	10	7
PSB	1	11	16	19
PDC	5	22	—	—
PRN	—	40	1	—
PP	—	—	35	—
Others	1	16	12	11
TOTAL	487	503	513	513

* In 1993, the PDS merged with the PDC to become the Partido Progressista Reformador (PPR).

** In 1995, the PPR merged with the Partido Progressista (PP – formed in 1993 from two small parties, the PTR and the PST) to become the Partido Progressista Brasileiro (PPB).

*** In 1991, the Partido Comunista Brasileiro (PCB) became the Partido Popular Socialista (PPS). (The Partido Comunista do Brasil – PCdoB – chose to retain its name.)

Source: <http://jaironicolau.iuperj.br>.

In the Congressional elections, the PMDB won 260 (53 percent) of the seats in the Chamber of Deputies and 38 (78 percent) of the 49 seats in dispute in the Senate. See Tables 4.1, 4.2 and 4.3. The PFL achieved the second-best performance, electing 118 federal deputies and seven senators, thus consolidating its position as the principal party of the Centre-Right. The PDS, which had seen its representation in the Chamber decline from 235 at the opening of the new Congress in February 1983 to 135 in June 1985 after the creation of the PFL and 68 in July 1986 after further losses to the PFL, elected only 33 deputies and 2 senators. The five parties of the Centre-Left/Left (PT, PSB, PDT, PCB and PCdoB) together elected only forty-nine deputies, less than 10 percent of the total, and one senator (Maurício Corrêa-PDT/DF), but the PT grew from eight to sixteen deputies, including its president Luiz Inácio Lula da Silva (SP). They came from eight different states compared with only three in 1982.

Table 4.2. *Election Results for the Senate (1986–1998)*

	1986	1990	1994	1998
Parties	Seats			
PMDB	38	8	14	12
PFL	7	8	11	5
PSDB		1	9	4
PT		1	4	3
PDS/PPR/PPB	2	2	2	2
PTB		4	3	
PDT	1	1	4	
PSB			1	
PL			1	
PPS			1	
PRN		2		
PP			4	
Others	1	4	0	0
TOTAL	49	31	54	27

Source: <http://jaironicolau.iuperj.br>.

Table 4.3. *Composition of the Brazilian Senate*

	1987	1991	1995	1999
Parties	Seats			
PDS/PPR/PPB	5	3	6	3
PMDB	44	27	24	27
PDT	2	5	6	4
PFL	16	15	19	19
PSDB	—	10	10	16
PTB	1	8	5	1
PT	0	1	5	7
PSB	2	1	1	3
PRN	—	2	0	—
Others	2	9	5	1
TOTAL	72	81	81	81

Note: Senators were elected for eight years. The composition of the Senate for selected years (the beginning of each legislature) is not simply a matter of adding up the one-third and two-thirds of senators elected in two successive elections, because senators elected state governor or joining the government are required to vacate their seats and their alternates (*suplentes*) may belong to a different party. Others change parties during their term of office.

Source: David Fleischer, 'Os partidos políticos', in Lúcia Avelar and Antônio Octávio Cintra (eds), *Sistema político brasileiro: uma introdução* (Brasília, 2004), pp. 256–7.

The National Constituent Assembly was composed of 559 members: 23 senators elected in 1982, 49 senators elected in 1986 and 487 federal deputies also elected in 1986. Six parties had more than ten representatives at the outset: PMDB (298), PFL (133), PDS (38), PDT (26), PTB (19) and PT (16). More than half of the representatives belonged to the PMDB. The PMDB, however, was a rather heterogeneous party (Senator Fernando Henrique Cardoso called it a '*partido-ônibus*') that sheltered diverse factions, ranging from left-wing nationalists to conservatives: forty representatives of the party had belonged to ARENA in 1979, thirty to the PDS in 1983, and there had been further migrations to the PMDB by ex-ARENA-PDS 'fellow travellers from the Right', 'friends of Sarney', in the 1986 elections. It has been calculated that in terms of pre-1979 party affiliations ex-ARENA outnumbered 'old' MDB politicians in the Constituent Assembly 217 to 212.⁶ The former allies of the military government had successfully adapted to the new political system. Two final points about the composition of the Constituent Assembly: twenty-six women had been elected in 1986 – more women had than in the entire period 1932–1986; and there were seven black deputies, including the first black woman, Benedita da Silva (PT, Rio de Janeiro).

The Constituent Assembly commenced its functions on 1 February 1987 and completed its work twenty months later on 22 September 1988. (In comparison it took three months to produce the 1891 constitution, eight months the 1934 Constitution, seven months the 1946 constitution – and only forty-five days the Constitution of 1967 imposed by the military.) Ulysses Guimarães, President of the PMDB and one of the principal leaders of the movement for democratisation at the end of the period of military rule, presided over the Assembly. And while the Assembly deliberated over a new constitution, President Sarney governed under the Constitution of 1967 (amended in 1969), although he had already revoked or modified some of its more authoritarian articles.

The Assembly's long duration was the result, above all, of the adoption of an extremely decentralised decision-making process. Without an initial preliminary project to serve as a reference in the debates, members held meetings under eight thematic committees, each one of which was divided into three subgroups. The texts drafted by the committees were

⁶ David Fleischer, 'The Constituent Assembly and the transformation strategy: attempts to shift political power in Brazil from the Presidency to Congress', in Laurence Graham and Robert Wilson (eds.), *The political economy of Brazil: public policies in an era of transition* (Austin, TX, 1990), p. 239.

sent to the *Comissão de Sistematização* (Integration Committee), a ninety-three-member committee that had the responsibility of making the texts compatible and of elaborating the first constitutional project. During this first phase of the Assembly's work, the progressive wing of the PMDB led by Senator Mário Covas (São Paulo) largely controlled its key elements (the registrars and clerks of the eight thematic committees and the Integration Committee's review board). Consequently, the preliminary project presented by the Integration Committee largely reflected Left/Centre-Left opinion in the Assembly.

Towards the end of 1987 dissatisfaction with the preliminary project led to the formation of a coalition of Centre-Right representatives, the so-called *Centrão* composed of the more conservative elements in the PMDB and practically all those who belonged to the PFL, PDS, PTB and PL. Its leadership included Marco Maciel, Ricardo Fiúza and José Lins (PFL), Antônio Delfim Neto and Roberto Campos (PDS), and Afif Domingues (PL). The *Centrão* played a fundamental role in the final phase of the Constituent Assembly's deliberations. In January 1988 it was able to alter the rules, permitting representatives to present joint amendments which, with the support of the majority of the Assembly, modified many articles in the integration committee's preliminary project and thus the new Constitution.

Two of the most contested votes were those that defined the system of government and the duration of President Sarney's term of office. Despite the integration committee's preliminary project opting for the adoption of a parliamentary system, in March 1988, after prolonged debate over the issue, the Constituent Assembly voted 344 to 212 in favour of a presidential system. The vote was strongly influenced by the president and his ministers, who defended presidentialism in principle, but who also feared that approval of parliamentarism would immediately diminish Sarney's powers. There was, however, no clear division between Left and Right; the majority of the members of the *Centrão*, but also the PT and the PDT, opted for presidentialism, while the left wing of the PMDB and the small left-wing parties (PCB, PCdoB and PSB) preferred a parliamentary system.

The 1969 amendment to the Constitution of 1967 had stipulated a five-year presidential term of office, but a further constitutional amendment (in April 1977) extended it to six years. Like General Figueiredo in 1978, Tancredo Neves was indirectly elected for a six-year term from 15 March 1985. Sarney, and most members of the parties which had formed the Aliança Democrática, the PMDB and the PFL, had rejected the idea of holding immediate direct presidential elections in November 1986 and left

the presidential mandate to be decided by the Constituent Assembly. It became one of the most contentious issues in the Assembly. The expectation was that Sarney's term would last as long as the term defined for future presidents. In May 1987 Sarney announced on television (reiterated in January 1988) that he intended to remain in government for five years. In November, the integration committee decided in favour of a five-year presidential mandate, but only a four-year mandate for Sarney, in order that direct presidential elections could be held in November 1988. From that moment on, parliamentarians of the *Centrão*, members of the government, and Sarney himself participated directly in the defense of a five-year term. During the days that preceded the vote, the government put huge resources behind a campaign on radio and television, and made outlandish pork-barrel disbursements. A five-year term for Sarney was finally approved in Congress by a wide margin: 328 votes (mostly from the PMDB, PFL and PDS) to 222 votes. Some conservatives argued that shortening the mandate from six to five years was equivalent to a 'constitutional coup'. Some on the Left felt that, on the contrary, it was the lengthening of the mandate from four to five years that represented a 'constitutional coup' since it postponed for a year the early direct presidential elections which, according to the opinion polls, were supported by more than 70 percent of the population (80 percent in the ten major cities).

Internal differences within the Assembly's largest party, the PMDB, were aggravated in the votes over the system of government and the duration of President Sarney's term of office. The party's left wing, which had already distanced itself from the government, had advocated parliamentarism and a four-year presidential term. Defeat in both votes was a strong stimulus for the foundation of a new party. The Partido da Social Democracia Brasileiro (PSDB) was officially created in June 1988. Its founders included Senators Mário Covas (São Paulo), Fernando Henrique Cardoso (São Paulo), José Richa (Paraná) and Afonso Arinos de Melo Franco (Rio de Janeiro) and the former governor of São Paulo, André Franco Montoro. The party enjoyed the initial adherence of forty federal deputies, including thirty-four from the PMDB, notable among them José Serra (São Paulo) and João Pimenta da Veiga (Minas Gerais). The governor of Ceará, Tasso Jereissati, and his political group affiliated themselves to the PSDB in 1990.

The new Constitution was ratified on 5 October 1988. Delegates to the Constituent Assembly had opted for a long, detailed charter with 245 articles (some, like Article 5 on individual rights and guarantees, with several dozen paragraphs), plus 70 *disposições transitórias*. The political system

itself underwent few changes. The main features of the 1946 Constitution, the constitution of the Liberal Republic (1946–1964), were maintained: federalism, bicameralism and presidentialism; majoritarian elections for president, governors, senators and mayors; open-list proportional representation⁷ in the elections for the Chamber of Deputies, state legislatures and municipal councils; and mandatory voting for citizens between the ages of eighteen and seventy. The Constitution also maintained the previous rules for the distribution of seats between states: three each in the Senate; a minimum of eight and a maximum of seventy per state in the Chamber – leading to the underrepresentation of states in the Southeast and South, São Paulo, in particular, and the overrepresentation of many states with relatively small populations in the North, Northeast and Centre-West. New features introduced in the 1988 Constitution included the election of the president, governors and mayors of cities with more than 200,000 voters in two rounds if necessary to achieve a majority of the valid vote; direct election of the governor of the Federal District; and the lowering of the voting age to sixteen, thus extending political rights and citizenship to 16 and 17-year-olds. Finally, the territories of Roraima and Amapá became states and one new state, Tocantins, was created.

The Constitution did, however, change the rules governing the relationship between the executive and the legislative branches of government. Congress regained a number of prerogatives it had lost during the military period (e.g., Chamber approval of the budget and changes in taxation, Senate approval of treaties and nominations). And two new instruments strengthened the Executive in relation to the Legislature: the *medida provisória* (provisional measure) and the *pedido de urgência* (request for urgency). The provisional measure substituted the *decreto-lei* (decree-law) – used during the military regime – and was intended to offer the executive branch the option of proposing, under extraordinary circumstances, legislation having immediate effect, though subject to approval by Congress within thirty days, without which it became ineffective. The request for urgency was introduced with the intent of expediting the discussion and voting of projects of interest to the Executive.

The Centre/Centre-Left progressives had lost the political battles over the length of Sarney's mandate (and therefore the date of direct presidential elections) and the form of government (which determined whether Sarney would be forced to finish his mandate with reduced powers). And the

⁷ The open-list proportional system has been used since 1945. See Chapter 2 in this volume.

conservative majority (*Centrão*) had ruled out many radical economic or social articles in the new Constitution, for example on agrarian reform. But the Left, with the support of much of civil society, including the labour unions, urban (the CUT and CONCLAT-CGT) and rural (CONTAG), the PT grassroots, the Brazilian Bar Association (OAB), and the National Confederation of Brazilian Bishops (CNBB), had victories beyond their expectations in the fields of economic, social and human rights. One of the notable features of the new Constitution was a lengthy section dedicated to social rights which highlighted, besides the right to strike, the reduction of the working week, holidays with pay and generous maternity leave. There were also articles relating to social security, environment, welfare, health, education, the family and the rights of the indigenous population. The 1988 Constitution, in reaction to the administrative and fiscal overcentralisation under the military governments and in response to the increased popular participation in politics, also provided for a significant degree of decentralisation of political power and administrative responsibilities to both the states and, more particularly, the *municípios* within the Brazilian federation. Despite all this, the PT regarded the 1988 Constitution as ‘essentially conservative, anti-democratic and anti-popular’, and voted against its promulgation.

On 15 November 1988, a few weeks after the ratification of the new Constitution, municipal elections were held. For the first time in Brazilian history, all municipalities (4,293 at the time) simultaneously elected their mayors and council members (with elections for mayor in cities with more than 200,000 voters going to a second round if no candidate had a majority of the valid votes in the first). The local elections were strongly influenced by national politics. There was by this time general disillusionment with the Sarney administration, not least because of the poor performance of the economy (mediocre growth accompanied by a level of inflation approaching hyperinflation).⁸ One particular event reinforced the growing support for the opposition parties. On 9 November (six days before the elections), the army invaded the CSN (Companhia Siderúrgica Nacional) in Volta Redonda, Rio de Janeiro, which had been taken over by striking workers. The army’s action was disastrous: three workers were killed and twenty-three were injured. The incident shocked public opinion and, in the state

⁸ On the economy during the Sarney administration, see Chapter 6 in this volume.

capitals and other urban centres, many voters expressed their repulsion by voting for the parties of the Left and Centre-Left.

The main beneficiaries of this so-called *onda vermelha* (red wave) were the PT and the PDT. The PT, while winning in only thirty-eight *municípios* overall (0.9 percent of the total), won the main prize, the city of in São Paulo (Luiza Erundina), and also Diadema, Santo André and São Bernardo in Greater São Paulo, Santos, Campinas and several other cities in the state of São Paulo, and two other state capitals: Porto Alegre and Vitória. It also came second in Rio de Janeiro and Belo Horizonte. The PDT captured only 192 municipalities (4.5 percent), but it won in Rio de Janeiro (Marcelo Alencar), in other heavily populated municipalities in the state of Rio de Janeiro (Niterói, Volta Redonda, Campos, Nova Iguaçu, São Gonçalo), in Curitiba and Londrina in Paraná, and in two state capitals in the North: Natal and São Luís. The PMDB performed poorly in the biggest cities: the party was only able to maintain control of Salvador, Fortaleza, Goiânia and Teresina. It maintained its position as the largest party in Brazil, however, electing 1,606 mayors (37.5 percent). As for the two parties that were the heirs to ARENA, the PFL won in four state capitals (Recife, Cuiabá, João Pessoa and Maceió) and in more than a thousand smaller municipalities (a total of 1054, or 24.7 percent); the PDS won in only 444 municipalities (10.4 percent), including two state capitals (Florianópolis and Rio Branco). The PSDB, which had been founded a few months before the elections, won in only one state capital (Belo Horizonte) and in seventeen cities in the Brazilian interior.

The year 1989 was marked by continued mediocre growth performance and, after the failure of various stabilisation plans, hyperinflation. Sarney reached the end of his term of office discredited, with a high rejection rate: the polls by the Instituto Datafolha showed that in September almost 70 percent of the population considered the government of Sarney bad (*ruim*) or very bad (*péssimo*). And the unpopularity of the Sarney administration was to be reflected in the poor performance of the candidates of the two principal *governista* parties, the PMDB and PFL, in the presidential elections in November 1989.

Despite the unpopularity of many of his policies and his own personal unpopularity, Sarney had, however, presided over a rapid and complete transition to democracy in Brazil. During the Sarney administration, two local elections (in municipalities previously denied the right to elect their mayors in 1985, and in all municipalities in 1988), one election for Congress, state governors and state assemblies in 1986, and finally in 1989

the first direct presidential election since 1960. Moreover, illiterates had been granted the right to vote for the first time; new political parties were formed and the two Communist parties legalised; and a new Brazilian Constitution was elaborated and promulgated. He was also responsible, along with President Raúl Alfonsín of Argentina, which was also going through a process of democratisation after a long military dictatorship, for a dramatic improvement in Brazil's relations with its Southern neighbour. This paved the way for the signing of the Treaty of Asunción between Brazil, Argentina, Uruguay and Paraguay in 1991 and the creation of a regional association for trade liberalisation behind a common external tariff: Mercosur.

The 1989 Presidential Election

The presidential elections of 15 November 1989 were held symbolically on the centenary of the establishment of the Republic. The electorate now numbered 82 million (in a population of almost 150 million) – compared with only 15 million (in a population of 70 million) in 1960. And because voting was mandatory for those over eighteen and under seventy, the turnout was high: 88 percent. 72.3 million voted, of whom 70 percent were voting for a president for the first time. Practically all the major parties nominated their own candidates to the presidency. Twenty-one candidates, from extreme Right to extreme Left, ran for election, although only five of them obtained more than 5 percent of the valid vote, that is, the total number of votes for candidates, excluding *votos em branco* (blank ballots) and *votos nulos* (spoiled ballots): Fernando Collor de Mello, a hitherto virtually unknown politician from the poor northeastern state of Alagoas, candidate of the recently created Partido da Reconstrução Nacional (PRN); Luiz Inácio Lula da Silva, the labour union leader, founder and leader of the PT (Partido dos Trabalhadores [Workers' Party]) and federal deputy (PT-São Paulo), with the support of the PSB and the PCdoB; Leonel Brizola, former governor of two important states, Rio Grande do Sul and Rio de Janeiro, and leader of the PDT; Senator Mário Covas, one of the leaders of the PSDB, which had been founded a little over a year earlier; and Paulo Maluf, candidate of the PDS, a former ARENA governor of São Paulo and the defeated PDS candidate in the 1985 indirect presidential elections.

Fernando Collor de Mello, the grandson of Lindolfo Collor, Vargas's Labour Minister in 1930, came from a traditional oligarchical family with interests in the media in Alagoas, the second smallest and second poorest state in Brazil. He had been nominated ARENA mayor of Maceió in 1978

(age twenty-nine), elected federal deputy for the PDS in 1982 and elected governor of Alagoas for the PMDB in 1986 (age thirty-seven). Initially, as the candidate of the newly founded PRN, Collor presented himself as an 'outsider'; young, attractive and energetic, he made powerful speeches against the Sarney administration, against the traditional politicians who represented the Brazilian elite, and especially against corruption in public and private life. Viewed with distrust at the beginning of his campaign, he became the favourite of conservative party leaders in many states and a significant number of businessmen, who had no viable candidate of their own and feared the victory of either Leonel Brizola or Luiz Inácio Lula da Silva, both of whom began the year ahead of Collor in the polls. Rede Globo, Brazil's major television network, openly supported Collor throughout the entire campaign.

Collor de Mello ran a traditional political campaign, holding hundreds of rallies throughout Brazil, but with modern marketing techniques (sophisticated promotional material, extensive use of surveys and expensive television programmes). He rose from 9 percent in polls in March to 32 percent in May and 40 percent in June–July. He eventually won the first round of the election with 20.6 million votes (30.5 percent of the valid vote). Collor's vote was well distributed throughout Brazil; he failed to win only in the states of Rio de Janeiro and Rio Grande do Sul (both won by Brizola) and in the Federal District (Brasília), which was won by Lula. He received strong support from the population with the lowest income and education: 49 percent of voters with a family income of up to one monthly minimum salary, 55 percent of voters with a low level of education and 49 percent of the inhabitants of small towns (up to 20,000 inhabitants) voted for him.⁹

Luiz Inácio Lula da Silva had the support of organised labour, sections of the urban middle class and the progressive wing of the Catholic Church. He was, however, unable to attract the support of the poorest and least educated voters. He obtained 17.2 percent of the valid votes (11.6 million votes). Besides his victory in the Federal District, he came a strong second in Minas Gerais and Pernambuco, and third in Rio de Janeiro and Rio Grande do Sul. In his own state of São Paulo, however, he came fourth (with only 17 percent of the vote). Leonel Brizola (PDT) only narrowly failed to reach the second round run-off against Collor. He came third in the first round with 16.5 percent of the valid votes (11.2 million votes) – 400,000 fewer

⁹ Scott P. Mainwaring, *Sistemas partidários em novas democracias: O caso do Brasil* (Rio de Janeiro, 2001), p. 44.

Table 4.4 *1989 Presidential Election: First Round*

Candidate	Party	Votes (million)	Percentage of Valid Votes
Fernando Collor de Mello	PRN (PST/PSL)	20.6	30.5
Luiz Inácio Lula da Silva	PT (PSB/PcdoB)	11.6	17.2
Leonel Brizola	PDT	11.2	16.5
Mário Covas	PSDB	7.8	11.5
Paulo Maluf	PDS	6.0	8.9
Guilherme Afif	PL (PDC)	3.3	4.8
Ulysses Guimarães	PMDB	3.2	4.7
Roberto Freire	PCB	0.8	1.1
Aureliano Chaves	PFL	0.6	0.9
Twelve other candidates		2.5	3.9
Total			100.0

Note: Spoiled ballots: 4.8 percent of the vote; blank ballots: 1.6 percent. Total: 4.7 million votes

Source: www.jaironicolau.iuperj.br.

than Lula. Brizola's votes were concentrated in the states of Rio Grande do Sul and Rio de Janeiro; he performed badly in Minas Gerais (5.4 percent) and even worse in São Paulo (1.5 percent) and which damaged his overall national performance. Mário Covas (PSDB) received 11.5 percent of the votes, with a significant number of votes in São Paulo and in the urban centres of the other states in the Southeast, Paulo Maluf (PDS) 8.9 percent (again mostly in São Paulo). The candidates of Brazil's two largest parties, the PMDB and the PFL, which had together won all the state governorships and 75 percent of the seats in Congress in 1986 and which had provided the Sarney administration with its main support, had a mediocre performance. Ulysses Guimarães, the PMDB's president, received only 4.7 percent of the vote; former Vice-President Aureliano Chaves (PFL) a derisory 0.9 percent. See Table 4.4. Both were affected by the low popularity of the Sarney government in its final years and by the significant support their parties' regional bosses gave to Fernando Collor.

Since no candidate had the required minimum of 50 percent of valid votes, the Brazilian presidential election for the first time went to a second round on 17 December. The Brazilian voters were now offered a clear choice between Right (Collor) and Left (Lula). Collor received the support of the leaders of the various conservative parties, above all the PFL, PTB and PDS, including Paulo Maluf. Lula obtained the backing of the defeated left-wing candidates (Leonel Brizola, PDT, and Roberto Freire, PCB) and, after some initial indecision, the crucial support of the PSDB (largely influenced by

Mario Covas) and of factions of the PMDB. Orestes Quêrcia, the governor of São Paulo, however, persuaded most PMDB governors and the bulk of the party to remain neutral, which prompted the PT to announce that it did not want the support of any politician linked to the outgoing Sarney administration. The dispute divided Brazil. And as Lula drew level with Collor in the opinion polls, there was a strong reaction from conservative elements. Still controversial is the role played in the election by television. Two incidents in particular have been much debated. In the first, Collor in one of his free electoral propaganda hours presented a former girlfriend of Lula, the mother of his two daughters, who confessed that Lula had once suggested that she have an abortion. The second was the manner in which Rede Globo's *Jornal Nacional* (Brazil's most-watched TV news programme) covered the final presidential debate. Broadcast the day after the debate, the footage was edited in a manner that clearly favoured Collor. It is difficult to know how decisive these two events were in Collor's ultimate victory, but it seems unquestionable that they damaged Lula's campaign during its final days. Collor won the election with 53 percent of the valid votes (35.1 million) to Lula's 47 percent (31.1 million).

Thus, the 1989 presidential election, the first since the end of the military dictatorship, was not won by the PMDB, the main opposition movement for more than twenty years and by far the biggest and broadest party in Brazil, as might have been expected, nor by the PFL, which had split from the ruling PDS as the military regime came to an end, nor by the PDT, the party of Leonel Brizola, heir to Getúlio Vargas and João Goulart, whom the military had overthrown in 1964, nor by Lula and the PT, the new grassroots opposition party of the Left. It was won by Fernando Collor de Mello, a relatively unknown politician from Alagoas, with no significant party behind him (the PRN was created only months before the election), with only a rudimentary program based on anticorruption (which is ironic in view of what was to come), who proved attractive to the political and economic elite, which after the twenty-one-year military dictatorship had no credible candidate of its own, as well as to the poorest sections of Brazilian society in the so-called *grotões*.

We will never know whether Brazil's new democracy would have passed its supreme test – the acceptance by the dominant class of victory by Lula and the PT in the presidential elections of 1989. It has been frequently observed that only when the Left lost the first elections following a process of democratisation could it be said that democracy was truly safe. Like the Left, the Right in Brazil – the traditional political class (rural and urban),

the more powerful economic interest groups, including broad sections of the urban middle class – was, it seemed, now committed to peaceful democratic politics, as it had not always been in the past. However, it could be argued that these were no more than fair-weather democrats. When the costs of overthrowing democracy and resorting to authoritarianism are high and the costs of tolerating democracy low, democracy is likely to survive. But when their interests are threatened by forces favouring a significant distribution of wealth and power, as they were, or were believed to be, in 1964, and as they were again believed to be by some in 1989, there is always a possibility that they will look to the military to overthrow democracy. On the other hand, the Brazilian military had only recently given up power. Moreover, the international environment in the late 1980s was uniquely favourable to the survival and consolidation of democracy in Latin America. In particular, the United States made support for democracy a central feature of its policy towards the region, as it had done in the past but this time with rather better results. Furthermore, with the end of the Cold War anti-Communism was no longer available as the main justification for the overthrow of a constitutional democratic government as it had been in Brazil in 1964.

THE COLLOR ADMINISTRATION, 1990–1992

On 15 March 1990 Fernando Collor de Mello took office as president for a five-year term. Few presidents were less well equipped by personality, background and training for the task. In addition, the challenges that he would face were not small. The economy was out of control: during the month of February, the Sarney administration's last month in office, inflation reached 84 percent. Moreover, since he came to power in the final year of the Congress elected in 1986 Collor's parliamentary base was very weak. The Chamber of Deputies was overwhelmingly dominated by 'opposition' parties – PMDB, PSDB, PDT and PT. Only some twenty deputies had migrated from other parties to Collor's PRN. He had to rely on the uncertain support of ninety or so PFL and thirty or so PDS deputies. All three parties, PRN, PFL and PDS, together had less than 30 percent of the seats in the Chamber. In the Senate, the President had the support of seventeen senators (21 percent of the total): thirteen from the PFL, three from the PDS and one from the PRN. In order to govern, therefore, he would have to negotiate with other parties, especially the most conservative factions of the PMDB and the small parties of the Centre/Right. On the

other hand, Collor's election had provoked enormous expectation, mainly among voters of low income and education. According to *Datafolha* polls, on taking office more than 70 percent of Brazilians believed that Collor would run a good or excellent government.

Collor began by reducing the number of ministries (to fifteen) and appointing only three ministers affiliated with political parties (two from the PFL, one from the PDS). The other twelve were either *técnicos* or from the president's inner circle. It was the Brazilian government with the least number of ministers with party affiliations since 1945. Throughout his campaign, Collor had made severe criticisms of the traditional political elite. His choice of a nonparty cabinet was intended to demonstrate his independence. And, with few exceptions, this first cabinet was maintained for almost two years (until December 1991). The one significant change was the removal of Finance Minister Zélia Cardoso in May 1991 after the failure of two stabilisation plans. What became known as Collor I, a wage and price freeze including the freezing (in the short term, the confiscation) of all bank deposits, the president's famous 'silver bullet' to end inflation, was introduced on the very first day of the Collor administration and ultimately proved a failure. There were from the beginning many loopholes, and in August the government was obliged to liberate all deposits (which by then had lost 30 percent of their value due to inflation!). Collor II, introduced in January 1991, was an equally dismal failure. By March inflation was once again above 20 percent per month.¹⁰

In November 1990, eight months after Collor took office, elections were held for twenty-six state governors and the governor of the Federal District, for the Chamber of Deputies and one-third of the Senate, and for state legislative assemblies. The elections were important since they gave the President the opportunity to strengthen his base in Congress (as well as to increase the number of governors supporting him). No less than nineteen parties won seats in the new Chamber of Deputies. As in 1986, the PMDB elected the greatest number of deputies (108, but dramatically down from 260 in 1986), the PFL coming second with (83 deputies seats, down from 118). The number of deputies from the PMDB and PFL taken together declined from 77 percent to 38 percent of the total. Another six parties each secured between 5 and 10 percent of the seats: PDT, PDS, PRN, PTB, PSDB and PT. See Table 4.1. For the Centre/Left it represented some advance: the PDT increased the size of its *bancada* from twenty-four to

¹⁰ On the economic policies of the Collor administration, see Chapter 6 in this volume.

forty-six (to become the third largest) and the PT from sixteen to thirty-five. The PSDB, participating in Congressional elections for the first time, won thirty-eight seats. The Centre-Left as a whole (PDT, PT, PSDB, PCB, PCdoB, PSB) increased its strength from 47 in 1986 (107 when the PMDB deputies who left to form the PSDB in 1988 are added) to 138 in 1990. The PRN, Collor's party, also taking part in Congressional elections for the first time, won only forty seats (8 percent of the total). The parties supporting the government – PRN, PFL and PDS – experienced some modest gains, but with together only around 33 percent of the seats the election had not altered their minority position in the Chamber. This was certainly not the surge in Congressional support for which Collor had hoped.

In the elections for the Senate, in which eleven parties won seats, the parties supporting the government achieved slightly better results: the PFL elected eight senators, the PDS two and the PRN two, taken together 40 percent of the seats contested. See Table 4.2. But the government's base in the Senate continued to be weak, with only twenty (of eighty-one) senators: fifteen PFL, three PDS and two PRN. See Table 4.3. In the gubernatorial elections the PMDB, which had captured twenty-two of twenty-three states in 1986, this time won only eight of twenty-seven. But the general picture was again not very favourable to President Collor. Among the ten most important states, the parties supporting his government won in only three: Bahia (Antônio Carlos Magalhães, PFL), Pernambuco (Joaquim Francisco, PFL) and Santa Catarina (Vilson Kleinübing, PDS). Opposition parties won the other seven: São Paulo (Luís Antônio Fleury, PMDB), Minas Gerais (Hélio Garcia, Partido das Reformas Sociais, PRS, a new party created for the sole purpose of electing him), Rio de Janeiro (Leonel Brizola, PDT, for a second time, with more than 60 percent of the vote), Paraná (Roberto Requião, PMDB), Rio Grande do Sul (Alceu Collares, PDT), Ceará (Ciro Gomes, PSDB) and Pará (Jader Barbalho, PMDB). The PT did not elect any state governors, but it came in second in five elections, including Rio de Janeiro and the Federal District.

Throughout 1991 President Collor's popularity dropped precipitously. In March 1992, two years after taking office, the failure of the anti-inflationary policy, the recession (GDP grew by only 1 percent in 1991 and was to decline by 0.5 percent in 1992) and the accusations of corruption involving several ministers caused 48 percent of Brazilians to evaluate the government as bad or very bad.¹¹ Collor began gradually to fill his cabinet with

¹¹ *Folha de São Paulo*, 15 March 1992.

more experienced traditional politicians like Jarbas Passarinho and Jorge Bornhausen and independent professionals like Marcílio Marques Moreira (Finance), José Goldemberg (Environment), Hélio Jaguaribe (Science and Technology) and Celso Lafer (Foreign Relations). This attempt to give his government greater weight, however, did not last long. It was soon engulfed by a major corruption scandal involving the president himself. On 10 May 2002 the president's brother, Pedro Collor, denounced in *Veja* magazine a vast scheme of corruption orchestrated by the business manager and ex-treasurer of Collor's presidential campaign, Paulo César Farias, involving extortion, kickbacks for favours, bribery, electoral fraud and tax-evasion. Congress decided to launch a CPI (Congressional investigation), which lasted three months. Senator Amir Lando's final report was completed on 26 August. It accused President Collor of having full knowledge of, colluding in, and receiving several million dollars from, Paulo César Farias' corruption scheme, and of behaviour incompatible with 'the dignity, honour and decorum of the office of the head of state'.¹²

During the Congressional investigations Collor was gradually abandoned by his old allies. And popular demonstrations against a president elected under the banner of ethical politics and the battle against corruption spread throughout the country, led in several big cities by high school and university students with their faces painted (hence the *carapintadas*) demanding his removal from office. It was the most significant mass political mobilisation in Brazil since the movement for direct presidential elections (*diretas já*) in 1983–1984. The government's popularity plummeted; in September only 9 percent considered the government to be excellent or good, against 68 percent that considered it bad or very bad.¹³ It could be argued that this was as much, or more, a reflection of Collor's failure to deal with Brazil's economic problems (high inflation and lack of growth) as corruption. If his economic policies had been more successful his corruption might have been more readily overlooked. On 29 September the Chamber of Deputies approved, by 441 votes to 38 votes, the opening of impeachment proceedings against him. On 2 October Vice-President Itamar Franco temporarily assumed the presidency.

In the middle of the impeachment crisis, on 3 October, elections were held in 4,267 municipalities. Despite the turbulence in national politics, the elections were largely contested on local issues and the distribution of

¹² Mario Sergio Conti, *Notícias do Planalto: A imprensa e Fernando Collor* (São Paulo, 1999), p. 690.

¹³ See http://datafolha.folha.uol.com.br/po/aval_pres_1992.shtml.

power between parties was not much altered. The two largest parties at the time continued to dominate: the PMDB won control in 1,605 *municípios* (34 percent), the PFL in 965 (20 percent). Overall the PSDB was the party that grew the most: it had elected eighteen mayors in 1988 (less than 1 percent); in 1992 it elected 317 (7 percent). Nine different parties elected the mayors of Brazil's twenty-six state capitals; the PSDB won five; the PMDB won four, including Rio de Janeiro, where César Maia (PMDB) beat Benedita da Silva (PT), after twelve years of PDT administration; the PT won four, including Belo Horizonte and Porto Alegre; the PDT won four; the PDC won two; and the PFL won one. The election in Brazil's most important city, São Paulo, was won by the PDS: Paulo Maluf defeated Eduardo Suplicy (PT).

On 29 December the Senate met finally to decide the issue of President Collor's impeachment. A few minutes into the beginning its deliberations, Collor announced his resignation. The Senate nevertheless went ahead and approved his impeachment – by seventy-six votes to three votes (with two senators absent). Collor had his political rights revoked for eight years. The next day Itamar Franco formally assumed the presidency for the remaining two years of Collor's term.

Since the Second World War only two directly elected Brazilian presidents had served their full term: Eurico Dutra (1946–1951) and Juscelino Kubitschek (1956–1961). Getúlio Vargas, elected in October 1950, had committed suicide in August 1954; Jânio Quadros, elected in October 1960, had resigned in August 1961 (and Vice-President João Goulart, who replaced him, was overthrown by the military in March 1964). Now, Brazil's first democratically elected president, after five indirectly elected military presidents and one indirectly elected civilian president (Sarney), had been impeached less than halfway through his term of office. Many observers, scholars and journalists, took the view that Brazil's new democracy was 'fragile', 'embattled', far from 'consolidated'.¹⁴ With hindsight, however, the political crisis surrounding the impeachment of Collor perhaps demonstrated the maturity of Brazilian democracy more than its fragility. For the first time in the history of the Republic a president was removed from office by legal, constitutional means, and for the first

¹⁴ See, for example, Juan J. Linz and Alfred Stepan, *Problems of democratic transition and consolidation. Southern Europe, South America and post-communist Europe* (Baltimore, 1996), p. 178. Examining Brazilian democracy in 1992–1993, they asked: 'Is democracy in Brazil an over-determined failure or, in the Hirschmanian sense, are there some possibilistic opportunities?'

time without the direct involvement of the military. Through efficient lobbying, the military had persuaded the Constituent Assembly to maintain in the 1988 Constitution its right to intervene in the case of a serious political crisis, if requested to do so by any branch of government. But, despite some prompting by the press, some politicians, and even Collor himself, the military avoided any intervention in the impeachment crisis.

THE ITAMAR FRANCO ADMINISTRATION, 1992–1994

The new president was a politician from Minas Gerais who had been elected MDB mayor of Juiz de Fora in 1966, MDB senator for Minas Gerais in 1974 and PMDB senator in 1982. In 1986 he had abandoned the PMDB to become the candidate of the Partido Liberal (PL) for state governor, but was defeated by the PMDB candidate, Newton Cardoso. In 1989 he had affiliated himself with Collor's PRN to run as candidate for vice-president. Upon assuming the presidency in December 1992, Itamar successfully established a coalition government based on the three largest parties – PMDB, PFL and PSDB – to provide him with a stable majority in Congress for his legislative agenda and to offer the country the possibility of a return to some kind of normalcy after the instability and uncertainty of the Collor years. Thus, the PMDB returned to government, joining the PFL once again, and the PSDB participated in government for the first time. Senator Fernando Henrique Cardoso (PSDB-São Paulo) was initially appointed Foreign Minister. For some observers he was a *de facto* Prime Minister. The president would call him frequently, sometimes five or more times a day, on matters outside the area of foreign policy.

One of the first tasks of the Franco administration was to hold a national referendum on Brazil's system of government. Article 2 of the 'transitory dispositions' of the 1988 Constitution had established that after five years a referendum would be held, first, on whether Brazil should maintain its presidential system or switch to a parliamentary system and, secondly, and somewhat bizarrely, on whether Brazil should continue as a republic or restore the monarchy (which had been overthrown in 1889). The referendum was brought forward from 7 September to 21 April 1993. Because voting was obligatory, the turnout was relatively high (74 per cent), though lower than that for elections. (In some northern states, less

than half the registered voters turned out – in Maranhão, for example, 41 percent; in Tocantins, 44 percent.) Presidentialism was supported by 55 percent of those who voted; 25 percent chose parliamentarism; 20 percent spoiled their ballot papers or left them blank. The republican option was chosen by 66 percent of the voters; a surprising 10 percent opted for the monarchy; 24 percent *branco* or *nulo*.

The 1988 Constitution also allowed for its revision after five years. In October 1993 the Chamber and the Senate agreed that any revision could be determined by an absolute majority of Congress meeting in joint session rather than the two-thirds majority required in two separate votes in each house for ordinary constitutional amendments. It was expected that there would be intense debate on all aspects of the Constitution, but in the end only six amendments were made. The big parties of the Centre/Centre-Right – PMDB, PFL and PPR (Partido Progressista Reformador, resulting from a fusion of the PDS with the PDC in 1993) – did not mobilise their members to vote for major changes, and the parties of the Left boycotted the sessions for fear that some of the social rights in the 1988 Charter would be diluted. Approved in May 1994, the constitutional amendment that had the greatest political impact was that which reduced the presidential term of office from five to four years. The aim was to reduce the possibility of ‘outsiders’ being elected president (like Jânio Quadros in 1960 and Fernando Collor in 1989) in years in which there were no Congressional elections, making it more difficult for the president’s party (or a coalition of parties) to secure a majority or at least a strong representation in Congress. In October 1994, by an accident of the electoral timetable, for the first time since October 1950 presidential and Congressional elections (as well as elections for state governor and state legislative assemblies) were due to be held simultaneously. In future, presidential elections would always be held in the same year as Congressional elections although, as we shall see, this change did not solve the problem of ‘minority presidentialism’ and therefore governability.

Itamar Franco had begun his presidency faced with great challenges. His personal style may have been idiosyncratic and unpredictable, but he remained popular to the end and he did leave two fundamental legacies, one economic, the other political. First, Itamar succeeded in doing what his two predecessors had signally failed to do: he implemented a stabilisation plan (the *Plano Real*), launched in July 1994, which, after more than a decade of frustrated attempts, finally led to the reduction of annual inflation to

single digits.¹⁵ Secondly, he brought some stability to Brazil's fledgling democracy in which the major political parties once again played an active and constructive role, both in government and in opposition. And he had maintained good relations with the three military ministers, ensuring that, despite a certain amount of restiveness during the first half of 1993, the military remained firmly committed to its new, essentially nonpolitical role in the New Republic.¹⁶

The 1994 Elections

On 3 October 1994, for the first time since 1950, as we have seen, simultaneous elections for president, state governors, the Chamber of Deputies, the Senate and state assemblies were held. 94.7 million Brazilians were registered to vote and 77.9 million (82.3 percent) voted. Eight candidates contested the election for the presidency (compared with 21 percent in 1989). However, it quickly became a contest between two: Fernando Henrique Cardoso (PSDB), the candidate of the outgoing government, and Luiz Inácio Lula da Silva (PT), the principal opposition candidate – both from the Left/Centre-Left, both opponents of the previous military dictatorship, both from São Paulo (though neither had been born there). Cardoso, a distinguished sociologist with an international reputation and a politician with impeccable democratic credentials and advanced sociodemocratic ideas, had first entered the Senate in 1983 as a PMDB *suplente* (alternate) after André Franco Montoro was elected governor. Following his defeat by Jânio Quadros in the election for mayor of São Paulo in 1985, Cardoso was elected senator for the PMDB in 1986, but left the party to found the PSDB in June 1988. He had initially joined the government of Itamar Franco as Foreign Minister but in May 1993 had been moved to the Ministry of Finance. And it was Cardoso, advised by a group of brilliant young economists and backed by the president, who was responsible for formulating and implementing the *Plano Real*. In campaigning for the presidency Cardoso sought the support of two Centre-Right parties: the

¹⁵ On the *Plano Real*, see Chapters 6 and 7 in this volume

¹⁶ Linz and Stepan (op. cit., p. 171) quote from an article on the dangers of a military coup by one of Brazil's leading journalists, Elio Gaspari, in *Veja*, Brazil's largest news weekly, on 28 April 1993: 'Brazil is on the road to coup d'état. The situation cannot last two years... to say that there is no chance of a coup because the armed forces are out of politics is nonsense... the empresarios and the middle class will make it'.

Table 4.5. *Presidential Election 1994*

Candidate	Party	Votes (million)	Percentage of Valid Votes
Fernando Henrique Cardoso	PSDB(PFL-PTB)	34.4	54.3
Luiz Inácio Lula da Silva	PT (PSB-PCdoB-PPS-PV-PSTU)	17.1	27.0
Enéas Carneiro	PRONA	4.7	7.4
Orestes Quéricia	PMDB(PSD)	2.8	4.4
Leonel Brizola	PDT	2.0	3.2
Espiridião Amin	PPR	1.7	2.7
Two other candidates		0.6	1.0
Total			100.0

Note: Spoiled ballots: 9.6 percent of the vote; blank ballots: 9.2 percent. Total: 14.6 million votes.

Source: www.jaironicolau.iuperj.br.

PFL, which did not run a candidate of its own (though it nominated Marco Maciel as his vice-presidential running mate), and the PTB. Lula da Silva disputed his second presidential election with the support of the small left-wing parties – the PSB, the PCdoB and the PPS (Partido Popular Socialista, previously the Brazilian Communist party before it changed its name in 1991). The PT began the campaign confident of victory since Lula, who had only narrowly lost to Collor in 1989, had maintained a considerable lead in the opinion polls since the impeachment of Collor in 1992. At the beginning of 1994 no other candidate had more than ten percent support in the opinion polls. As late as May support for Lula stood at more than 40 percent; his closest challenger Cardoso had less than 20 percent support. However, the *Plano Real* gave an enormous boost to Cardoso's candidacy. The new currency, the *real*, entered circulation on 1 July: within a few weeks Cardoso had risen to first place in the polls and he eventually triumphed in October.

Cardoso won the election in the first round with 34.4 million votes (54 percent of the valid votes). Lula came second with 17.1 million (27 percent). See Table 4.5. Opinion surveys showed that Cardoso had majorities in all income and educational brackets and lost only in only one state, Rio Grande do Sul, and in the Federal District, both of which were won by Lula. The other candidates fared badly: Orestes Quéricia (PMDB), a former governor of São Paulo, received only 4.4 percent of the vote; Rio de Janeiro's former governor, Leonel Brizola (PDT), who had received 16.5 percent in 1989, obtained only 3.2 percent this time; and Esperidião Amin (Partido Progressista Reformador, PPR– the old PDS, which had merged with the

PDC and changed its name in 1993) only 2.7 percent. The big surprise was provided by Enéas Carneiro, the candidate of the right-nationalist PRONA (Partido de Reestruturação da Ordem Nacional). He won 7.4 percent of the vote (compared with only 0.5 percent in 1989), essentially a protest vote by those dissatisfied with the candidates of the mainstream parties.

Thus, the 1994 presidential election, like that of 1989, was won by neither of the two major parties, PMDB and PFL, nor by either the PDT or the PT, but by Fernando Henrique Cardoso, the candidate of the small Centre-Left/Centre PSDB, which had split from the PMDB in 1988, backed by the parties of the Centre-Right/Right, especially the PFL and PTB. The PMDB was split, with many of its supporters voting for Cardoso, but most of its leaders for their own candidate, Quéricia. In 1994, even more than in 1989, the principal aim of the conservative forces in Brazil, which again, after the Collor debacle, had no candidate of their own, was to defeat Lula, who six months before the election was apparently heading for a comfortable victory. It was the *Plano Real*, with its promise of a final end to runaway inflation that guaranteed victory for Cardoso. In particular, it secured the support of the poorest sections of Brazilian society, the principal beneficiaries of the Plan.

The coalition of parties that had successfully backed Cardoso in the election for the presidency, however, was unable to guarantee him an absolute majority in the Congress. Eighteen parties won seats in the Chamber of Deputies. And the parties supporting the government won only 35 percent of them: PFL (eighty-nine seats, 17 percent), PSDB (sixty-two seats, 12 percent) and PTB (thirty-one seats, six percent). Despite the poor performance of the PMDB candidate to the presidency, the party continued to have the largest number of deputies in the Chamber (107 votes, 21 percent). The PT did less well than its candidate Lula, winning only forty-nine seats, 9.6 percent of the total), less well even than the rightwing PPR. See Table 4.1. The government coalition did rather better in the elections for the Senate: the PFL elected eleven senators, the PSDB elected nine and the PTB elected three – a total of 43 percent of the seats contested. But once again the PMDB, with fourteen, elected the greatest number of senators. See Table 4.2. Thus, despite the president having been elected at the same time as the Congress, the parties supporting him were unable to win a majority of the seats in either of the two houses of Congress, as a result of which Cardoso would be obliged to seek the support of other parties in order to govern.

In the elections for state governors, the PSDB did manage to make use of Cardoso's coattails. It won in six states, including the three largest. In São Paulo, Senator Mário Covas defeated Paulo Maluf (PPR) in the second round. Marcelo Alencar, a former mayor of the capital, won in the state of Rio de Janeiro. And Minas Gerais was won by a former mayor of Belo Horizonte, Eduardo Azeredo. The PMDB continued to control the greatest number of states, nine, including Santa Catarina and Rio Grande do Sul. There were two interesting new developments: the PT for the first time won control of a state, Espírito Santo (Vitor Buaiz), as well as the Federal District (Cristóvão Buarque); also for the first time, Brazil elected a woman governor, the PFL candidate Roseana Sarney, the daughter of former President José Sarney, in Maranhão.

THE CARDOSO ADMINISTRATION, 1995–2002:
AN INTERIM ASSESSMENT

Fernando Henrique Cardoso became president on 1 January 1995, initially for a term of four years (with no right of reelection), in conditions more favourable than those encountered by his immediate predecessors. He had been elected (in the first round) with strong popular support. His own party, the PSDB, had less than 20 percent of the seats in Congress, but with the support of the PFL, PTB and PMDB, provided the coalition held firm and a reasonable measure of party discipline was maintained, he could count on absolute majorities in both houses of Congress: 56 percent in the Chamber and 69 percent in the Senate. When in 1996 the PPB (Partido Progressista Brasileiro – the result of the merger of the PPR with the PP in 1995) joined the government coalition he had the 60 percent support in each house necessary for approving reforms requiring constitutional amendment. And the *Plano Real* promised to provide Brazil with macroeconomic stability for the first time in more than fifteen years.

Cardoso formed a strong administration, distributing ministerial posts among the three parties in the coalition – PSDB (five), PFL (three) and PTB (one) – and, once it had agreed to support the government, the PMDB (two), but also appointing a number of ministers with no party affiliation, including Pedro Malan (Finance), Luís Felipe Lampreia (Foreign Relations), Adib Jatene (Health) and Edson Arantes do Nascimento, the great Pelé (Sport). From the outset a great deal of attention was given to liberal economic reform. The state-run telephone company Telebras

was privatised – claimed at the time to be the largest privatisation in Latin American history – and, more controversially, given the strength of nationalist sentiment on this issue historically, Petrobras's forty-year monopoly in upstream oil and natural gas exploration and downstream oil refining was broken. These constitutional reforms were relatively easy to secure in part because they did not directly and immediately threaten voters' interests. The government's proposals for administrative and social security reforms encountered much greater resistance.

The administrative reform that was finally approved in June 1998 was very different from that which the government had initially proposed. It ended the job stability of civil servants, who could now be dismissed on grounds of overstaffing or inadequate performance. However, the establishment of a ceiling for the salaries of civil servants in all three branches of government was not approved. Social security reform caused more problems for the Cardoso administration than any other proposal. Various constitutional amendments and bills passed through a tumultuous process of deliberation in Congress, but in the end few were approved. The most important of the reforms implemented was the change in the criteria for determining retirement benefits; they were no longer based on *tempo de serviço* (years of employment) but on *tempo de contribuição* (years of contribution).

Even with a broad base of support in Congress, Cardoso nevertheless made extensive use of an extraordinary instrument of government, *medidas provisórias* (provisional measures). Created by the 1988 Constitution (see earlier in this chapter), the provisional measure was an executive act regarded as relevant and urgent that had the immediate effect of law but had to be approved by Congress within thirty days. In making more use of MPs than anticipated by the makers of the Constitution presidents – Sarney, Collor, Itamar Franco and now Cardoso – took advantage of two 'loopholes': in the first place, the Constitution did not specify what was 'relevant and urgent' as a result of which quite routine administrative measures were presented as MPs; secondly, it proved possible to reissue MPs with minor alterations so that the same measure could continue in effect beyond thirty days without Congressional approval or even consideration. The Cardoso administration significantly widened the use of the mechanism of reissue: 2,449 MPs were reissued during Cardoso's first term of office (an average of 35.4 a month) and 2,587 (78.4 per month on the average) during the second term. See Table 4.6.

Table 4.6. *Presidential Use of Provisional Measures (MPs) 1989–2002*

	Originals	Monthly Average	Reissues	Monthly Average
José Sarney	125	5.2	22	0.9
Fernando Collor	89	2.9	70	2.3
Itamar Franco	142	5.3	363	13.4
Fernando Henrique Cardoso I	160	3.3	2,449	35.4
Fernando Henrique Cardoso II*	103	3.1	2,587	78.4
Fernando Henrique Cardoso II**	102	6.8	—	—

* To 10 September 2001.

** From 11 September 2001 when the new rules on provisional measures came into effect. Constitutional Amendment no. 32 altered the rules for the issuing of provisional measures. Such a measure was now valid for sixty days (extendable for an additional sixty days), during which time it had to be approved by Congress or lose its validity. At the same time new circumstances under which the use of provisional measures was prohibited were laid down.

Source: Presidency of the Republic, *Casa Civil*, Judicial Affairs: www.presidencia.gov.br.

In October 1996 elections for mayors and local councils were held in Brazil's 4,762 *municípios*. As in 1992, the campaign focused primarily on local issues (transportation, health, education, urban planning and housing). And once again the PMDB (which won in 24 percent of *municípios*) and the PFL (in 17.4 percent) were the most successful parties, performing particularly strongly in the smaller *municípios* of the interior in many states. The PSDB, however, the President's party, experienced the most significant growth, winning in 17.1 percent of *municípios*, compared with only 6.7 percent in 1992. Eight different parties elected mayors in the twenty-six state capitals: PMDB (five), PSDB (four), PPB (four), PFL (four), PSB (three), PDT (three), PT (two) and PTB (one).

During his first two years in government, Fernando Henrique Cardoso always opposed any change in the rules for presidential elections. The 1988 Constitution permitted only one term in office. However, from the end of 1996, various ministers (led by the Minister for Communications, Sérgio Motta), with the discreet backing of the President, declared their support for a constitutional amendment that would, for the first time in the history of the Republic, open up the possibility of a second successive mandate for holders of executive office (president, state governors and mayors). And this would include those like President Cardoso already in power. The amendment was approved on the first vote in the Chamber of Deputies by 336 to 17 in February 1997 and ratified in June. The process of approving the amendment in favour of reelection was, however, extremely

contentious. And it was alleged, but never proved, that some deputies, most notoriously five deputies from Acre, had received money to vote in favour of the proposal.

In October 1998 general elections were held for president, state governors, the Chamber of Deputies, two-thirds of the Senate and the legislative assemblies. 106 million Brazilians were registered to vote; 83.3 million voted. Twelve candidates disputed the presidential elections, but only three received more than 5 percent of the vote: Fernando Henrique Cardoso, Luiz Inácio Lula da Silva and Ciro Gomes. President Cardoso (PSDB), who offered himself for reelection, had the support of the PFL, PTB and PPB – three parties of the Centre-Right. Some factions of the PMDB, which like the PFL did not present its own candidate for the presidency, also supported Cardoso. His main adversary was once again Lula da Silva, the PT candidate for the third time. Lula had put together a coalition of Left/Centre-Left parties (PT-PSB-PCdoB-PDT) with Leonel Brizola (PDT) – who had been a candidate to the presidency in 1989 and 1994 – as vice-presidential candidate. It was the first time the two principal parties of the Left/Centre-Left had combined their forces in the first round. Lula also had the support of some factions in the PMDB. Ciro Gomes, former governor of Ceará, stood as the candidate of the PPS (the former Communist party), in alliance with the Partido Liberal (PL) which in the 1990s became the favourite vehicle of many Evangelical politicians.

Fernando Henrique Cardoso led in the opinion polls throughout the entire campaign, capitalising on the generally positive evaluation of his first term. In May 1998 a *Datafolha* poll showed that more than 80 percent of Brazilians, considered his administration excellent, good or at worst average. This was in large part due to the prevailing monetary stability. Annual inflation had fallen from almost 1,000 percent in 1994, to 14.8 percent in 1995, 9.3 percent in 1996, and 7.5 percent in 1998,¹⁷ which in particular benefitted those on low incomes, the overwhelming majority of Brazilians. As in 1994 Cardoso won in the first round, with 36 million votes (53.1 percent of the valid votes). He won in every state except (narrowly) Rio de Janeiro and Rio Grande do Sul, and in all social groups whether measured by education or income. Lula again came second with 21.5 million votes (31.7 percent), slightly more than the combined PT/PDT vote in 1994 (30.2 percent), Ciro Gomes third with 7.4 million (11 percent) and

¹⁷ On the effects of the *Plano Real*, see Chapter 7 in this volume.

Table 4.7. *Presidential Election 1998*

Candidate	Party	Votes (million)	Percentage of Valid Votes
Fernando Henrique Cardoso	PSDB (PFL-PMDB-PPB-PTB-PSD)	36	53.1
Luiz Inácio Lula da Silva	PT (PDT-PSB-PC do B)	21.5	31.7
Ciro Gomes	PPS	7.4	11.0
Enéas Carneiro	PRONA	1.4	2.1
Eight other candidates		1.4	2.1
Total			100.0

Note: Spoiled ballots: 10.7 percent of the vote; blank ballots 8.0 percent. Total: 15.6 million votes

Source: <http://jaironicolau.iuperj.br>.

Enéas Carneiro of the right-wing nationalist PRONA party fourth with 2.1 percent (compared with 7.4 percent in 1994). See Table 4.7.

As in his two previous attempts to reach the presidency, the defeated candidate Lula had to battle against deep-rooted prejudice: the majority of Brazilians (of all classes) found it hard to imagine, as president, a *metalúrgico* from a poor rural northeastern background and only a modest elementary-school education. But the PT also contributed to its own defeat: it remained rooted in the socialist Left; it was internally divided; many of its economic policies in particular were unconvincing; its social base in the industrial working class was too narrow; it could never decide whether to bid for the support of the very poor and underprivileged or to look for alliances in the centre ground beyond the small parties of the Left. The latter were in any case probably unavailable to the PT at the time since the PSDB and almost all of the PMDB (the two Centre parties) were committed to Fernando Henrique Cardoso's re-election.

Elections for the Chamber of Deputies, in which in some parts of Brazil the electronic ballot was used for the first time¹⁸, were disputed by thirty-one parties, eighteen of whom elected deputies. Thus the unusually high

¹⁸ The electronic voting machine was first introduced in the municipal elections of October 1996. It was used in fifty-seven municipalities (state capitals and municipalities with more than 200,000 voters), which together accounted for 32 percent of the total electorate. In the Congressional elections of October 1998, although the electronic ballot was used in less than 10 percent of *municípios* (537 of 5,608), almost 60 percent of the electorate voted electronically. In four states (Rio de Janeiro, Alagoas, Roraima and Amapá) and in the Federal District the electronic ballot was 100 percent. The aim was to simplify the voting procedure and eliminate electoral fraud, which still existed in certain regions of Brazil, especially during the count. Its design is quite simple: a screen and a numerical keyboard, similar to an ATM terminal. The voter types in the number of the chosen party or candidate; a photograph of the candidate or the name of the party appears on the screen; the voter then confirms his or her choice.

level of party fragmentation in the Brazilian Congress (by any international comparison) was maintained. The balance of forces, however, remained unaltered. The parties supporting the government elected a majority of the deputies, with PFL increasing the number of its deputies from 89 to 105 (20.5 percent) and the PSDB from 62 to 99 (19.3 percent). The PMDB continued to play a pivotal role in the centre, though the size of its *bancada* declined from 107 to 83 deputies (16.2 percent). Among the opposition parties, the PT experienced the most significant growth, increasing its representation in the Chamber from forty-nine to fifty-eight seats (11.3 percent). See Table 4.1. In the elections for the Senate, the coalition of parties that supported Cardoso (PSDB, PFL, PPB, PTB) won eleven of the twenty-seven seats contested; the PMDB won twelve. See Table 4.2. However, with the seats it won in 1994 the government was again guaranteed a majority in the Senate as well as the Chamber during Cardoso's second term. See Table 4.3.

In the elections for state governments, seven parties elected governors. In São Paulo Mário Covas (PSDB) was reelected, defeating Paulo Maluf (PPB) in the second round. But the PSDB lost in two of the biggest states it had won in 1994. In Rio de Janeiro the PSDB candidate, Luiz Paulo Correa, came a poor third in the first round, and in the second Anthony Garotinho, the candidate of the PDT (in alliance with the PT, PSB and PCdoB) defeated César Maia (PFL, PPB, PTB). And in Minas Gerais, former President Itamar Franco (PMDB) defeated Governor Eduardo Azeredo (PSDB), who was up for reelection. The hitherto close relationship between Itamar Franco and Fernando Henrique Cardoso had deteriorated during 1997 and 1998. Franco had wanted to be the PMDB's candidate for the presidency in 1998, but failed to persuade the party, which in the end preferred not to field a candidate. In his subsequent campaign for the governorship of Minas Itamar indulged in some heavy criticism of Cardoso's economic policies. In Rio Grande do Sul, the PT won an important victory: Olívio Dutra, one of the founders of the party, defeated PMDB governor Antônio Brito (who was seeking reelection) in the second round. The PT also won the governorships of two other states: Mato Grosso do Sul and Acre.

In the light of Brazil's political history, political culture and political system (and the defeat of the socialist Left almost everywhere in the world in this period), the growth of the PT since 1985 was a remarkable story. Not only had its candidate for president, Lula da Silva increased his vote in three successive elections – from 17 percent in 1989 (in the first round) to 27 percent in 1994 and 32 percent in 1998 – but the party had increased

its seats in both the Senate and the Chamber of Deputies in every Congressional election. The PT had also won control of the Federal District in 1994 and Rio Grande do Sul in 1998 and major cities like São Paulo in 1988 and Porto Alegre in 1988, 1992 and 1996. After the October 2000 municipal elections, although the PMDB and the PFL continued to control the majority of the country's five and a half thousand municipalities, and especially the small municipalities, the PT was the most successful party in the bigger cities. After 2000 the PT governed half of the sixty cities with populations of more than 200,000 and six state capitals, more than any other party, including São Paulo for the second time, Porto Alegre for the fourth time, and in alliance with the PSB, Belo Horizonte. The PT, however, still seemed a long way from winning power at the national level.

Fernando Henrique Cardoso was the first directly elected president since Juscelino Kubitschek (1956–1961), and only the third since 1945, to serve a full term. And he now became the first president in the history of the Republic to be reelected for a second term. He began his second term, like his first, with a solid base of support in Congress: in the Chamber of Deputies 381 deputies (74 percent of the total) from five different parties (PSDB, PFL, PPB, PTB – and, after some hard bargaining, PMDB); and in the Senate 67 senators (83 percent). Among the governors, only three were not aligned with the government – Itamar Franco (Minas Gerais), Anthony Garotinho (Rio de Janeiro) and Olívio Dutra (Rio Grande do Sul). He governed for a full second term and thus became, apart from Getulio Vargas, the longest serving president in Brazilian history,

It is too early to make a definitive judgement on the second Cardoso administration (1999–2002). But there is a consensus that it was not as successful as the first. It began in the middle of a major financial crisis primarily induced by the external 'shock' of the Russian debt crisis, but not helped by previous inflexibility in the government's own exchange rate policy under the *Plano Real* and by governor Itamar Franco's decision (which received maximum international media coverage) to default on his state's debt to the federal government. And there were more financial crises to come. Cardoso in this sense has been described as an 'unlucky president' although, despite being forced into a major devaluation and the adoption of a floating exchange rate in January 1999, he was broadly speaking successful in keeping control of inflation and maintaining fiscal responsibility.

Cardoso had declared during the election campaign that the primary aim of his second administration would be to reduce social inequality through

government social policies, particularly on employment, health, education and agriculture. Facing a mounting challenge from the Landless Rural Workers' Movement (*Movimento dos Trabalhadores Rurais Sem Terra* – MST), he did succeed in his aim of providing more families with land than any previous Brazilian administration. Achievements in the other fields were real, but modest. And this, together with only average rates of economic growth, was perhaps the main reason for his low rate of approval at the end of his second term.

'My presidency', Cardoso has written, 'was, at its most basic level, about trying to turn Brazil into a stable country'.¹⁹ Besides macroeconomic stability (and a greater engagement in international affairs, a more activist approach to multilateral institutions, in the post–Cold War period), his fundamental legacy was indeed political stability through the consolidation of Brazilian democracy. The low vote in the 1989 presidential elections for the candidates of Brazil's two major parties in the post 1985 period, the PMDB and PFL, and the victory of Collor de Mello were a symptom of the public's lack of confidence in the traditional political elite. During the Cardoso administrations these parties together with the PSDB and the PT once again played a fundamental political role. National politics began to revolve around two poles: on the one hand, the PSDB, the PFL and the factions of the PMDB supporting the government; on the other hand, the PT, the small parties of the Left and the opposition faction in the PMDB, promoting greater stability and predictability in the political process. At the same time, the military continued to avoid any involvement in politics, as it had since 1985. At the end of 1998, a few days before he began his second term, Cardoso promulgated a decree that set the seal on the new pattern of civil–military relations in Brazil: the creation of a Ministry of Defence and the nomination of a civilian as the first minister.²⁰ Without serious institutional crises, and no popular mobilisations, the Cardoso Era was one of the most politically tranquil periods in the history of the Brazilian Republic.

¹⁹ Fernando Henrique Cardoso, *The accidental president of Brazil. A memoir* (New York, 2006), p. 202.

²⁰ Brazil had never had a Ministry of Defence. The commander of each of the three armed services, Army, Navy and Air Force, had traditionally been also the respective minister. Since the head of the Joint Chiefs-of-Staff of the Armed Forces and the top presidential military aide (*Chefe da Casa Militar*) also had cabinet status, Brazil always had at least five military ministers. With the creation of a Ministry of Defense, the commanders of the three services lost their status as ministers and came under the authority of the Minister of Defense, a civilian (and, ultimately, of the president, who is constitutionally the supreme commander of the Armed Forces). The position of head of the Joint Chiefs-of-Staff was abolished. The head of the *Casa Militar* also lost the status of minister; his duties were incorporated into an Institutional Security Office (*Gabinete de Segurança Institucional*), a civilian agency, though under the command of a general appointed by the president.

BRAZILIAN DEMOCRACY IN 2000

Fifteen years after the transition from military to civilian rule, Brazil could unquestionably be counted a fully fledged, consolidated and stable democracy. An electoral calendar had been established with regular, free and fair elections for both executive and legislative branches of government, at federal, state and municipal levels. Between the municipal elections of November 1985 and October 2000 Brazilians went to the polls in ten elections and one plebiscite. The Brazilian system of representation had been profoundly changed by the extension of political rights to all citizens, including the right to vote to illiterates. For the first time in the history of the republic Brazil had a political system based on one person, one vote – and a voting age of 16. With an electorate of 110 million in 2000, Brazil had become the third largest democracy in the world, after India and the United States. Elections were highly competitive, contested as they were during this period of fifteen years by a large number of political parties (for some analysts of Brazilian politics too many parties, as we shall see), from the far Left to the far Right. The conduct of elections was improved by computerised registration and electronic ballot boxes. There had been only one serious institutional crisis: the impeachment of President Collor in September–December 1992. Congress was extremely productive during these fifteen years, delivering a new Constitution, approving dozens of constitutional amendments and thousands of legislative bills and instituting several Congressional investigations. The judiciary was independent (though still relatively inefficient). The press was free. There remained no ‘authoritarian enclaves’, that is to say, remnants of the power apparatus of the former military dictatorship not accountable to democratically elected civilian governments. The military itself had steadfastly remained out of politics. With the end of the Cold War and the consolidation of democracy in Brazil, there was no justification for political intervention by the military; no significant social group would have supported it; and, moreover, the new generation of professional military officers showed no interest in attempting it. The ultimate test of Brazil’s new democracy – the acceptance by the military (and the more reactionary elements in the political and business elite) of a victory of the Left opposition in a presidential election – would be passed in October 2002 with the victory of Luiz Inácio Lula da Silva (see later in this chapter).

Despite these democratic advances, Brazilian democracy, like all democracies, was not without its flaws. In particular, Brazil’s electoral system

(especially the elections for the Chamber of Deputies) came in for a great deal of criticism. Because of the large (state-wide) electoral districts, deputies had minimal identification with their electorates. There was a clear absence of accountability. Proportional representation, 'open' lists of candidates and an absence of constitutional barriers to the formation of new parties had produced an 'underdeveloped', highly fragmented, weakly institutionalised, party system. In the nine elections between 1982 and 1998, seventy-six parties put up candidates for election, though thirty-nine of them only once. Eighteen had seats in the Congress elected in October 1998, though it should be emphasised that only eight of them had more than ten seats in the Chamber of Deputies and at least one seat in the Senate. The largest party (the PMDB after the 1990 and 1994 elections, the PFL after 1998) had no more than 20 percent of the seats in Congress. The president himself had to have been elected with more than 50 percent of all valid votes, if necessary in two rounds, but no directly elected president since Dutra in 1945 had in fact had anything close to a majority in Congress provided by his own party. Collor's PRN had only 7 percent of the seats in the 1991–1994 Chamber of Deputies, Cardoso's PSDB 12 percent in the 1995–1998 Chamber and 19 percent in the 1999–2002 Chamber. As a result of what came to be called permanent minority presidentialism, the president was obliged to conduct intense negotiations with party leaders, with individual politicians and even with state governors, who had a measure of influence over the deputies (of all parties) elected in their states, before and especially after elections, in order to guarantee the Executive a solid, sustainable base in the Legislature. *Presidencialismo de coalisão* led inevitably to *fisiologismo* (pork-barrel politics) and corruption. Many of the medium-sized and smaller parties simply became *partidos de aluguel* (parties for rent).

Even when the alliances and coalitions had been made to provide the president with the parliamentary majority necessary for government, the situation remained fundamentally unstable because Brazilian parties notoriously lack cohesion: party fidelity is weak and party-switching (*troca-troca*) is common. In the period following the end of military rule, 1,503 federal deputies were elected to three legislatures (1987–1991, 1991–1995 and 1995–1998). Of these, no less than 467 (31 percent) abandoned the party for which they were elected – some several times during the same Congress. And those elected in 1998 (and 2002) were no less volatile. Party switching involves all Brazilian parties, but not to the same degree. Among the larger parties, the PT lost fewest deputies – only three of the 100 deputies elected

between 1990 and 1998. At the other end of the spectrum was the PTB, which lost 41 percent of its elected deputies. Of the other major parties the PSDB lost 16 percent, the PFL lost 24 percent, the PPB lost 26 percent, the PMDB lost 34 percent, and the PDT lost 37 percent. Party switching was initially considered a question of the natural re-alignment of the political class after twenty-one years of military dictatorship. It was expected to diminish as democracy was consolidated. But this clearly did not happen. And the high level of party fragmentation, in discipline and instability was one of the factors behind the exaggerated use of provisional measures by the Executive.

Another consequence of the endless search for a stable majority of votes in Congress was that all presidents, whatever their political origins and inclinations, were forced to move to the centre ground, since a majority of deputies and senators in each Congress belonged to parties that were pragmatic, without ideological or programmatic consistency and broadly speaking of the Centre-Right. This was in part the result of the distribution of seats in Congress between states under Brazil's federal system. The less-populated, less-developed, more politically conservative (that is to say, more clientelistic and corrupt) states, especially in the North and Northeast, were relatively overrepresented in Congress. There had been an increase in the number of states from twenty-one throughout most of the Liberal Republic (1945–1964) to twenty-six in 1988, all of the new states except Mato Grosso do Sul in the North. And, as in the United States, all twenty-six states (plus the Federal District) regardless of population had an equal number of seats (three) in the Senate. But, unlike the United States, representation in the lower house of Congress was also not proportional to population or electorate. Despite the enormous disparity in size and population (and wealth) between states in Brazil – much greater than in the United States – there was for the Chamber of Deputies a minimum 'floor' (eight seats) and a maximum 'ceiling' (sixty, increased to seventy seats in 1994). Thus, São Paulo with an electorate of more than twenty-two million has seventy seats, the former federal territory, now the state of Roraima with an electorate of 120,000 had eight seats. Brazil's seven smallest states (by population, not territory) which together account for only 4 percent of Brazil's population elected 25 percent of the Senate and more than 10 percent of the Chamber. The system also favoured the more conservative, clientelistic parties that were strongest in the less developed states. For example, with only two or three percentage points more of the popular vote nationwide, the PFL

elected three times as many senators and almost twice as many federal deputies as the PT in 1994 and 1998.

As in all mass democracies in the late twentieth century, elections were won not so much by the individual candidates, and certainly not in Brazil by their parties, but by modern campaign organisation and methods, the influence of the media, especially television, and serious money. Even when compared to the electoral campaigns in more established democracies, Brazilian election campaigns were exorbitantly expensive. And naturally much of the finance came from business, raising the suspicion (sometimes proven) that certain public policies were implemented to favour certain donors or that donations were compensations for policies that had favoured donors in the past. Finally, although Brazil had greatly improved its system of campaign-expense accounting, illicit fundraising was common. It was impossible to know how much was raised illicitly; however, various investigations revealed that it was a generalised phenomenon – often involving individuals and networks connected to organised crime (gambling and drugs).

Political reform had been an issue of debate within the political class and in academic circles since the promulgation of the 1988 Constitution. Those who were highly critical of the workings of democratic political institutions in Brazil favoured radical reform: for example, the adoption of a parliamentary system (despite the fact that the electorate had voted strongly in favour of presidentialism in the plebiscite promised at the time of the 1988 Constitution and held in April 1993); a new electoral system with smaller, single-member voting districts; a ‘mixed’ voting system, part proportional representation, part first-past-the-post; and ‘closed’ lists, i.e. candidates selected by parties; a reallocation of seats in the Chamber of Deputies; and the implementation of drastic measures (constitutional barriers) to decrease the number of parties. Others more favourable to the existing political system propose more moderate reforms: for example, improvements in the mechanisms for controlling election costs, and legislation to inhibit the process of party switching. Finally, some were against all proposals for political reform on the grounds that the existing political system functioned reasonably well and was more than adequate for sustainable democracy.

Whatever the strengths and weaknesses of Brazil’s democratic political system it could be argued that democracy itself had not thus far been broadly or deeply legitimated. The Brazilian electorate was relatively young (20 percent under 21, almost 50 percent under 35), poor (40 percent of the

economically active earning one minimum wage or less, 60 percent less than two minimum wages, not much more than US\$200 per month) and poorly educated (40 percent illiterate or semiliterate, 70 percent with no more than seven years in primary school). Anísio Teixeira, one of Brazil's greatest educators, had declared more than half a century earlier: 'There will only be democracy in Brazil the day the machine (*máquina*) that prepares people for democracy – the public school – is assembled in Brazil'. At the beginning of the new century, despite some improvements in the 1990s, primary and secondary education in Brazil remained woefully inadequate. Public opinion polls in Brazil and the findings of Latinobarómetro in Santiago, Chile throughout the 1990s had consistently provided evidence a widespread ignorance of political issues and lack of trust not just in politicians, political parties and political institutions but in democracy itself.

Equally noteworthy were the large numbers of Brazilians who failed to vote in elections, even though the vote was technically mandatory, and of those who voted the number who voted *nulo* (i.e., with spoiled ballot) or *em branco* (with blank ballot) – practices common (and understandable) during a period of military rule but disturbing in a democracy. Abstentions rose from 12 percent in 1989 to 18 percent in 1994 and 22 percent in 1998. Of those who turned out to vote in presidential elections, only 6.4 percent voted *em branco* and *nulo* in 1989 (4.7 million) but almost 20 percent in 1994 and in 1998 (14.6 and 15.6 million, respectively). Thus, in 1998 38.4 million Brazilians either abstained or voted *nulo* or *em branco* – more than those who voted for Fernando Henrique Cardoso. The number voting *em branco* or *nulo* in Congressional and gubernatorial elections was around 30 percent (in some states – for example, Maranhão, Bahia and Pará – as high as 50 percent), and even higher in state assembly elections. These figures are extraordinarily high by the standards of any democracy in the world.²¹

²¹ It is sometimes argued, however, that the complications of the Brazilian voting system were more to blame than apathy or protest. The paper ballots used in Brazil were extremely complex and required voters to write in the name or number of their preferred candidates. Since Brazil has a significant number of illiterate, semiliterate and poorly educated voters, many made mistakes filling out the ballots. In the elections of 2002 there would be a marked decline in the number of those voting *em branco* and *nulo*: 10.4 percent in the first round and 5.9 percent in the second round of the presidential elections (compared with 18.8 percent in 1994 and 18.7 percent in 1998), and 7.7 percent in the elections for the Chamber of Deputies. This was in part, perhaps largely, due to the fact that for the first time in presidential and Congressional elections the vote was 100 percent by electronic ballot box which, dealing exclusively with numbers, made the voting process easier. The *urna eletrônica* had been partially introduced in the municipal elections of 1996 and the Congressional elections of 1998. Its use was 100 percent for the first time in the municipal elections of 2000. See p. 264, note 18, in this chapter.

There is, of course, more to democracy than elections, however honestly conducted and freely contested and whatever the level and strength of popular participation. A great cause for concern at the beginning of the twenty-first century was the fragility of the rule of law in Brazil after more than a decade of democracy. For a large proportion of the population basic civil liberties remained inadequately protected and guaranteed by the courts, and there were frequent gross violations of human rights, many of them perpetrated by the state military police forces. Brazil was a democracy of voters, it was frequently asserted, not yet a democracy of citizens. It was also argued by some that Brazilian democracy, with all its strengths and weaknesses, was merely 'formal', not yet 'substantive', in that it neglected the economic and social 'rights' of citizens. Brazil is a country with remarkably few of the regional, nationalist, racial, ethnic, linguistic and religious divisions, tensions and conflicts that pose a threat to democracies, old and new, throughout most of the world. In this respect it is uniquely fortunate. But could democracy be healthy, could it properly function, could it even survive in the long run, in a country which was so low down international league tables of human development and a strong contender for the title of world champion in social inequality, and with one-third of its population (some would put it much higher) living in conditions of extreme poverty, ignorance and ill health and treated at best as second class citizens? While Brazil's still relatively new democracy failed to deliver not only economic benefits to the population as a whole but at least the beginnings of a more equitable distribution of wealth and power, it would always be fragile and would always struggle to command popular support.

Brazil's social problems, with their roots deep in the past, are intractable and not susceptible to short-term solutions. The three Brazilian administrations democratically elected in 1989, 1994 and 1998 all depended for support in Congress on the parties of the Right and Centre-Right which, except in a rhetorical sense, did not put social issues high on their agendas. And these administrations were in any case constrained in their capacity to focus on the 'social question' by the demands of macroeconomic stability, especially the need to reduce the fiscal deficit and by low economic growth, following the 'lost decade' of the 1980s. Civil society was now highly mobilised in Brazil, offering new forms of participation and 'empowerment', but it was perhaps less *politically* combative than in the recent past. The connections between civil society and political parties, even the PT, were relatively weak. The elected governments of the 1990s could have been more effectively pressured into engaging in more meaningful

dialogue with the representatives of civil society and with leaders of opposition political parties and, without resorting to 'populist economics', could have been made more responsive to the economic and social needs of the mass of the population, more willing to give priority to compensatory, redistributive social policies. It is not surprising, therefore, that despite the clear benefits to the poor of the *Plano Real*, at least in its first years, and some of the social policies of the Cardoso administrations, progress on the reduction of poverty and inequality and an increase in social inclusion had been slow and that democratic government at the beginning of the twenty-first century was perceived by many Brazilians, perhaps the majority, as no different from the nondemocratic government of the past.

POSTSCRIPT: THE ELECTIONS OF 2002

The presidential elections of October 2002, the fourth since the transition from military to civilian government in 1985, for which 115.2 million people were registered to vote and 94.8 million (82.2 percent) voted, were an important landmark in the consolidation of democracy in Brazil. For the first time the elections were won by the candidate of a party of the 'Left', the Workers' Party (Partido dos Trabalhadores, PT), founded (and, uniquely in Brazilian political party history, founded outside Congress, from below) in 1980. Luiz Inácio Lula da Silva, the seventh of the eight surviving children of a poverty-stricken rural family from Garanhuns, in the interior of Pernambuco in the Northeast, Brazil's poorest region, the former metal worker and union leader from São Bernardo do Campo in the metropolitan region of São Paulo, with only four years of primary school education, was elected President of Brazil – at the fourth attempt. And in 2002, unlike 1989 and perhaps even 1994, had he been elected then, there was not the slightest doubt that President-Elect Lula would be allowed to assume power on 1 January 2003.

The 2002 presidential elections were contested by four principal candidates: Lula da Silva, for the PT in coalition with the PCdoB and the conservative PL – the first time in a presidential election that the PT was supported by party not of the Left; José Serra (PSDB), Senator for São Paulo, Minister of Planning in the first Cardoso administration and Minister of Health in the second, supported by the PMDB (or most of it); Anthony Garotinho, former governor of the state of Rio de Janeiro, for the Partido Socialista Brasileira (PSB) and with the strong backing of the evangelical communities; and Ciro Gomes, former governor of the state of

Ceará who had come third in the 1998 presidential election, for the Partido Popular Socialista (PPS, the former PCB), supported by the PDT and the PTB in a Frente Trabalhista. All four candidates, including José Serra, the son of Italian immigrants, a former student leader, in exile for fourteen years during the military dictatorship, who belonged to the left wing of the PSDB, could be said to represent parties of the Left or at least the Centre-Left. They all advanced proposals for social programs to reduce poverty and social inequality. All were, however, notably moderate and relatively liberal on economic issues. They were agreed on the need to continue the macroeconomic policies of the Cardoso administration – monetary stability, inflation targeting, a floating exchange rate, fiscal responsibility, and so forth – while criticising the low rate of growth (average 2.7 percent per annum under Cardoso) and the high rate of unemployment (7.3 percent of the economically active population in October 2002), inordinately high interest rates (19 percent in October 2002), the rapid growth of domestic debt (34.3 percent of GNP in 1996, 53.2 percent in 2001).²² Significantly, there were no strong candidates representing the Centre-Right, much less the Right. The two largest conservative parties in Brazil, the PFL and the PPB, not only failed to put up candidates of their own, they refused to join any coalition in support of other candidates.

In the first rounds of the three previous presidential elections (1989, 1994 and 1998), Lula had obtained 17, 27 and 32 percent of the vote, respectively, the latter largely because of his alliance with Leonel Brizola (PDT). Thirty percent was said to be his baseline, possibly his ceiling, and in view of the high rejection of his name, few analysts believed he could win in 2002 at the fourth attempt. A number of factors explain why Lula was able to overcome opposition to his candidacy and secure the support of voters who traditionally had not voted for him, both the urban middle class and the very poor (many of whom had preferred to vote for Collor and Cardoso). In the first place, the PT itself had changed. It had moved to the centre ground. During the 1990s, the so-called *Articulação* (later *Campo Majoritário*), led by José Dirceu, came to have a majority in the party and to adopt more moderate policies. After the expulsion of the *Convergência Socialista* in 1992 (which formed a separate party, the PSTU), the other groups on the Marxist, Trotskyist and Socialist left of the party (*Democracia Socialista*, *Articulação de Esquerda*, *Movimento PT*, *Ação Popular Socialista*, *Força Socialista*, *O Trabalho*, etc.) were increasingly outmanoeuvred and,

²² On the economic uncertainties of 2002, see Chapter 7 in this volume.

at least in decision-making at the top, somewhat marginalised. During the 2002 campaign, besides promising a greater measure of social justice and an end to clientelism and corruption in public life, Lula's *Carta ao Povo Brasileiro* (June 2002), in sharp contrast to the *Teses Finais* (Final Theses) of the party's II National Convention in Belo Horizonte (November 1999) and the *Diretrizes* (programme for government) presented to the party's XII National Meeting in Recife (December 2001), committed a future PT government to the market economy, macroeconomic stability, the control of inflation and fiscal equilibrium. The economic policies of the PT were no longer seen as a danger to the elite or the urban middle class (or international finance). They could safely vote for cleaner politics and much needed social reform. Secondly, the party hired Duda Mendonça, one of the best public relations men in Brazil, to coordinate the media campaign. Mendonça developed a campaign around the figure of Lula with a strong emotional appeal: 'Lula, paz e amor [Lula, peace and love]'. He also made extensive use of illegal, 'off-the-books' campaign funds (known as *caixa dois*), as the corruption scandals of 2005 revealed. Thirdly, political alliances were broadened. For the first time, besides the small parties of the Left, Lula received the support of a party of the Centre/Right, the PL. In return he made the PL's José de Alencar, a *mineiro* textile manufacturer (though from almost as a poor a background as Lula himself), the coalition's candidate for vice-president, again signaling the PT's and his own move toward the Centre.

On the other hand, José Serra, the outgoing government's candidate, faced a serious of difficulties in his campaign. He lacked Lula's charisma or strong popular appeal, and he was unable to secure the unqualified support of all factions in the PSDB. Moreover, two of the parties that had supported Cardoso's administration (the PFL and the PPB) did not participate in the coalition formed to support José Serra: the PFL had already begun to distance itself from the government before the election and had problems with Serra as a candidate; the PPB preferred to give priority to its alliances with other parties in the various state elections. And the PMDB (as usual) was divided. Serra also suffered from the low popularity of Cardoso and his government at the end of their second term, and from the widespread feeling that it was time for a change. According to the Instituto Datafolha, in a survey carried out on 11 October, the Cardoso administration's approval rate (excellent and good) was only 25 percent. José Serra had to spend a great deal of energy during the campaign not only emphasising his differences from Cardoso but also from Ciro Gomes

and Garotinho, in order to ensure that he at least reached the second round.

Lula polled 39.4 million votes (46.4 percent of the valid votes), but could not quite achieve what Cardoso had achieved in 1994 and 1998: outright victory in the first round. José Serra came second with 19.7 million votes (23.2 percent), Garotinho third with 15.2 million votes (17.9 percent) and Ciro Gomes fourth with 10.2 million votes (12 percent). Lula won in all regions of Brazil, in the Federal District and in every state except Rio de Janeiro (won by Garotinho), Ceará (won by Ciro Gomes) and Alagoas (won by José Serra). In the second round Lula was comfortably elected with 52.8 million votes (61.3 percent of the valid vote) – the largest number of votes (both in absolute and percentage terms) cast in the eight direct presidential elections held since 1945. In the second round he was supported by the PSB and by the parties of the Frente Trabalhista (PPS, PDT and PTB), thus attracting most of the votes cast for Garotinho and Ciro Gomes in the first round. The PFL and the PPB finally gave their support to Serra who polled 33.4 million votes (38.7 percent).

The 2002 elections were a personal triumph for Lula. But they also saw the PT advance, largely on Lula's coattails, in both houses of Congress. In the elections for the Chamber of Deputies the PT, with 16 million votes (18.4 percent of the vote), increased its number of deputies from fifty-eight elected in 1998 to ninety-one. It became the largest party, but like the PMDB in 1990 and 1994 and the PFL in 1998 it nevertheless had less than 20 percent of the seats in the Chamber. A total of nineteen parties were represented, confirming Brazil's reputation for having one of the most fragmented party systems in the world. The PFL, PMDB, PSDB and PPB, the parties in the Cardoso government coalition, came second, third, fourth and fifth, respectively, but all lost ground. Comparing seats won in 1998 and 2002, the PFL seats declined from 105 to 84, the PMDB seats declined from 83 to 74, and the PPB seats declined from 60 to 49. But it was the PSDB, President Cardoso's own party, that lost the largest number of seats: it elected ninety-nine deputies in 1998, only seventy-one in 2002. The fourteen other parties represented in the Chamber of Deputies had between them 144 deputies (more than a quarter of the total).

In the elections for the Senate the PT elected ten senators, including five women, doubling its representation from seven to fourteen and moving up from fourth to third place. It overtook the PSDB which elected only eight senators in 2002. Aloísio Mercadante was the star performer for the PT, polling ten million votes in São Paulo. The PFL, however, won fourteen

and the PMDB nine seats. With nineteen seats each in the new Senate, which with only (*sic*) ten parties represented was somewhat less fragmented than the Chamber of Deputies, the PMDB and PFL had together almost 50 percent of the total number of seats.

In the elections for state governor, however, the PT failed to win in any of the big three states: São Paulo was won by Geraldo Alckmin (PSDB), Minas Gerais by Aécio Neves (PSDB) and Rio de Janeiro by Rosinha Garotinho (PSB). The PT captured the governorships of only three, relatively minor states: Mato Grosso do Sul, Acre and Piauí. It did, however, have significant victories in the elections for the state legislatures in São Paulo, Minas Gerais, Rio Grande do Sul, the Federal District, Paraná and Santa Catarina. And, as a result of its gains in the municipal elections of October 2000, it already governed in six state capitals, including São Paulo, and another two dozen cities with populations of more than 200,000. All in all, it had been an excellent election for the PT.

On 1 January 1 2003 power was transferred from one directly elected civilian president, Fernando Henrique Cardoso, to another, Luiz Inácio Lula da Silva. The last time this had occurred was in 1961 when Jânio Quadro replaced Juscelino Kubitschek. In 1960, however, Brazil had not been the fully fledged democracy it was in 2003. And the fact that Lula was the leader of an opposition party, and an opposition party of the Left, was an indication of how far Brazilian democracy had been consolidated and had matured since the end of the military dictatorship in 1985 and the first presidential elections based on universal suffrage in 1989.

The challenges facing the Lula administration were immense. Lula himself had no experience of executive office, and although the PT had governed big cities, including São Paulo and Porto Alegre, important states like Rio Grande do Sul, and the Federal District, it had never governed Brazil. The PT was deeply divided, and there was some doubt about whether its leadership really had a project for government as well as a project for power. Moreover, the PT had less than 20 percent of the seats in the Chamber of Deputies and the Senate, as we have seen. Even with its allies in the 2002 elections, the parties of the Left/Centre-Left and the PL, it had only 30 percent of the seats in the Chamber. To govern effectively, since the PSDB and the PFL were expected to form a strong opposition, the administration would need the support of the smaller parties of the Centre-Right and some sections at least of the PMDB. A price would have to be paid for this. Yet Lula and the PT were committed to 'ethical' politics, that is to say, to ending or at least reducing clientelism, patronage, *fisiologismo* – and

corruption. (The government eventually secured the backing of 218 deputies (42.5 percent), and on 1 February 2003 when the new Congress opened it had 252 (49 percent) as a result of 'migrations', mainly to the government's new coalition partners, not to the PT itself.) Finally, all Brazilian governments were constrained by external economic realities, by the deeply rooted and intractable nature of Brazil's fundamental social problems, especially widespread poverty and extreme social inequality, and by the lack of bureaucratic capacity (a 'usable' state). Expectations were nevertheless high. Besides maintaining hard-won macroeconomic stability and restoring healthier levels of economic growth, it was hoped that the new government, Brazil's first government of the Left, would successfully combine 'formal' liberal representative democracy with a significant extension of citizens' rights, citizen security and, above all, a much greater measure of social justice.

PART TWO

ECONOMY AND SOCIETY

THE BRAZILIAN ECONOMY, 1930–1980

Marcelo de Paiva Abreu

INTRODUCTION

Brazil was a very sparsely occupied country in 1930: with a population under thirty-five million, there were only slightly more than four inhabitants per square kilometre.¹ Population was unevenly distributed with a heavy concentration on the coast and in the Southeast and Northeast. Population increased 2.8 percent per annum in the half-century to 1980: at increasingly higher annual rates until the 1960s, then at decreasing rates afterwards. In 1980 the population was 119 million, almost fourteen inhabitants per square kilometre. But population density still varied considerably: in the North it was only one inhabitant per square kilometre while in the Southeast it was around forty. The Southeast's share of the population was 44.6 percent in 1920 and was still 43.5 percent in 1980. The Northeast's share of the total population fell in same period from 36.7 percent to 29.3 percent. Data that are not strictly comparable indicate that the share of the population in cities with populations of 20,000 and more increased slowly in the two decades after 1920 to reach 16 percent in 1940 and then very rapidly in the 1950s, 1960s and 1970s to reach 51.5 percent in 1980.

Brazil was a very poor country in 1930. Gross domestic product (GDP) per capita peaked in 1929 at around US\$1,050 (2003 U.S. dollars) (See Table 5.1). This was about 17 percent of its level in 1980 when GDP per capita reached US\$6,000 (2003 U.S. dollars). GDP increased at 6.5 percent annually in the half-century after 1930 and GDP per capita increased at 3.7 percent, one of the highest country rates on record. GDP per capita was only between a quarter and a third of that of Argentina in 1929; in 1980 it was more than 85 percent. In 1929 GDP per capita was about half

¹ See Table 5.1 for selected data on the 1928–1980 period.

Table 5.1. *Brazil, Main Economic Variables, Selected Years, 1928–1980*

	1928	1930	1932	1937	1943	1956	1962	1967	1974	1980
Population, mid-year, million	34.6	35.5	36.4	39.2	43.7	62.1	74.2	85.5	104.4	121.6
GDP (1928 = 100)	100	98.9	99.8	143.3	168.3	383.2	635.8	753.0	1,535.4	2,288.7
GDP per capita (1928 = 100)	100	96.4	94.9	126.5	133.3	213.5	296.4	304.7	508.9	651.3
Gross fixed capital formation as percent of GDP	13.3	n.a.	n.a.	n.a.	n.a.	14.5	15.5	16.2	21.8	23.6
GDP deflator (1928 = 100)	100	94.5	76.5	92.8	155.7	864.7	3.78 * 10 ³	3.45 * 10 ⁴	1.53 * 10 ⁵	1.70 * 10 ⁶
GDP deflator annual rate, percent	11.5	-12.4	1.6	9.4	16.6	22.6	50.1	26.5	34.6	90.4
Real exchange rate* (1928 = 100)	100	117.9	150.1	185.9	162.5	173.6	188.0	156.4	171.3	196.0
Exports, US\$ million	474	319	179	347	473	1,483	1,215	1,654	7,951	20,132
Imports, US\$ million	389	225	93	279	227	1,046	1,304	1,441	12,641	22,955
Current account, US\$ million	n.a.	-79	24	-63	198	-11	-389	27	-7,122	-12,807
Foreign direct investment inflow, US\$ million	n.a.	4	2	10	50	151	69	530	887	1532
Total foreign debt, US\$ million	1,241	1,293	941	1,200	912	2,736	3,367	3,533	20,032	55,803
Reserves, US\$ million	178	43	50	50	495	608	285	198	5,269	6,913
Terms of trade (1928 = 100)	100	64.8	74.2	69.2	66.2	107.3	86.0	94.8	91.5	73.0
Prime interest rate** USA, percent	4.25	3.25	3.0	1.25	0.75	2.73	2.71	4.22	10.51	13.35

* Domestic currency; U.S. dollar exchange rate (applied to imports of goods until 1943 and IMF average market rate afterwards). Used Brazilian GDP deflator until 1947 then wholesale prices, U.S. wholesale prices. The higher the index the more depreciated the Brazilian currency.

** Until 1943, average discount rate, Federal Reserve Bank of New York. After 1956, annual average, Federal funds, Federal Reserve.

Sources: IBGE and the Brazilian Central Bank and International Monetary Fund.

that of Japan; in 1980 it was still a credible 44 percent of the Japanese level. GDP per capita annual growth rates after 1931 were always positive, with the exception of the years of 1940 and 1942 due to the shocks caused by the Second World War, and 1963, the worst year of the recession of 1963–1967. In 1956 and 1965 GDP per capita also fell, but not by more than 0.1–0.2 percent. GDP growth was especially rapid in 1942–1962 (7.5 percent annually), 1968–1974 (10.7 percent) and 1975–1980 (7.0 percent). There is no information on regional GDP for 1930. In 1980 GDP per capita of the Southeast, the richest region, was more than 43 percent above the national average, while the GDP per capita of the poorest region, the Northeast, was 59 percent below the national average.

Growth in GDP per capita was not reflected in a similar improvement in the major social indicators: infant mortality, life expectancy, literacy and so forth. Improvements there were, but they were modest and slow (especially in the 1940s and 1960s). Brazilian indicators remained consistently well below the levels which would be predicted based on comparisons with other developing economies with a similar GDP per capita. Moreover, improvement in social indicators was unevenly distributed between urban and rural areas and between the poorest regions, the North and the Northeast, and the richest regions, the South and the Southeast. Average life expectancy at birth rose from 42.7 years in the late 1930s (with extremes of 33.5 years in Rio Grande do Norte and 52.0 years in Rio Grande do Sul) to 62.7 years in 1980 (55.7 years in Alagoas and 67.8 years in Rio Grande do Sul). Infant mortality (deaths per thousand live births) fell from 158.3 in the late 1930s to 144.7 in 1950 (with extremes of 199 in Rio Grande do Norte and 99 in Rio Grande do Sul), 118.1 in 1960, 116.9 in 1970, and 87.9 in 1980 (151.3 in Paraíba and 48.5 in Rio Grande do Sul). In 1940 infant mortality was 40 percent higher in the Northeast than in the South. In 1980 it was 96 percent higher. The literacy rate of the population over 10 years of age increased from 43 percent in 1940 (38 percent for women) to 48.4 percent in 1950, 60.6 percent in 1960, 66.6 percent in 1970 and 74.5 percent in 1980 (73.5 percent for women).

GDP structure changed dramatically between 1930 and 1980. This was mainly due to the increased share of industrial output in GDP: it rose continuously by four to five percentage points each decade, with the exception of the 1950s when the share of industrial output in GDP increased from 24.1 percent to 32.2 percent. In 1980 it reached 40.9 percent. The share of agricultural output fell less steadily: contraction was particularly important in the 1930s, 1950s and 1960s with decreases around six or seven percentage

points per decade, but it was practically constant in the 1940s and the 1970s. The share of services in GDP fell from 52.9 percent to 48.9 percent with no clear long-term trend.

The textile sector combined with food processing accounted for 53.7 percent of the aggregate value of industrial production in 1939, while the value of production of the more 'modern' sectors – chemicals, metallurgical products, electrical, mechanical and transport equipment – was 16.8 percent of the total (and only 4.9 percent for the last three). By 1980 this had been radically reversed with the textile and food processing sectors accounting for 20 percent of the total industrial sector and the five modern sectors for 52.9 percent.

Agriculture employed 65.9 percent of the economically active population in 1939. In 1979 this had been reduced to 30.2 percent. During the same period, industrial employment rose from 11.8 percent to 20.6 percent of the active population. Most of the relative contraction of agricultural employment was compensated by the significant expansion of employment or underemployment in the services sector whose share in total employment rose from 22.3 percent to 50.8 percent. Productivity of labour engaged in manufacturing industry was five times the productivity of labour in agriculture in 1939. This ratio was roughly the same in 1979. Coffee production increased only 30 percent in the half century. Some of the crops for domestic consumption as beans, maize and manioc as well as beef increased below the average for the sector. Rice and sugar cane output increased at double this average. Consumption of wheat increased 9-fold compared to a population increase of 3.4-fold and the share of the heavily subsidised domestic production of wheat in total consumption increased from 21 percent to 36 percent.

Infrastructure in the end of the 1920s was rather poor. The total length of roads in 1930 was 113,250 kilometres, of which only 910 kilometres were paved. Expansion was rapid in the early 1930s, but laggard from the mid-1930s to the early 1950s: 2.7 percent annual increase for all roads and 2.3 percent for paved roads. The network was rapidly expanded afterwards. Between 1952 and 1964 it increased 5.1 percent annually and six-fold in the case of paved roads and from 1964 to 1977 it increased 7.9 percent annually (four-fold for paved roads). Although the road network stabilised around 1.4–1.5 million kilometres, the paved network continued to be extended in the late 1970s at an annual rate of more than 5 percent. The railroad network in 1930 of 32,478 kilometres was generally inefficient, with the major exception of the British-owned railway connecting the Paulista

plateau to the port of Santos and very few sections of the network in the state of São Paulo. Many harbours, however, had been modernised in the 'golden decade' preceding the First World War. Operation of harbours was notoriously inefficient and remained so at least until the turn of the century. The peak in railroad length was reached in 1954 with a network of 23,114 miles, less than 3,000 miles longer than that of 1930. But the competitive difficulties faced by railroads, most of which had been taken over by the government in the early postwar years, were further aggravated by the emphasis on road building after the mid-1950s.

Electricity generating capacity in 1930 was of 779 MW, about 25 kW/1,000 inhabitants. In 1980 it was 31,147 MW, about 350 kW/1,000 inhabitants. Electricity generating capacity increased rather slowly between 1930 and 1945, at 3.7 percent annually and then rather rapidly after 1945 at annual rates around 10 percent both during the periods of 1945–1964 and 1964–1980. Almost all the expansion after the beginning of the 1950s was by state-owned enterprises with foreign-owned firms restricted to distribution of electricity mostly supplied in bulk by the new state-owned companies. There were more than two hundred inhabitants per telephone line in the late 1930s and this fell slowly to reach twenty-four inhabitants per phone line by 1980. Progress was especially slow in the 1960s as foreign companies were taken over and state enterprises took a long time to restart network expansion.

The ratio of gross fixed investment to GDP reached 13.3 percent of GDP in 1929, a peak in the 1920s but considerably below the suspiciously high peak of 22.5 percent of GDP in the prewar boom. It fell under 7 percent in the trough in 1932 and hovered around 12–14 percent during the late 1930s. It then slowly rose to reach a new peak of 18 percent in the late 1950s during the boom years of the Kubitschek administration. After faltering to 13 percent in the early 1960s, it steadily rose to new peaks in the 22–24 percent range in the second half of the 1970s.

Exports, all of which were agricultural commodities (71 percent coffee), reached a peak of US\$473 million in 1928. This was about 1.45 percent of total world exports compared to below 1 percent in the 1990s. Brazil was by far the main supplier of coffee to the world market and this made possible some control of supply through stock building though this in the long run undermined Brazil's control of the market. Price inelasticity of coffee demand made this policy especially attractive. There was thus a powerful incentive to maintain the concentration of resources in coffee culture. Other significant commodity exports were sugar, cocoa, mate,

tobacco, cotton, rubber, and hides and skins. The export structure changed relatively little until the mid-1960s as coffee remained an important export and exports of industrial products were practically insignificant. The share of coffee in total exports fell in the late 1930s and 1940s to a third of total exports, but this was to a large extent due to the fall of coffee prices in relation to the prices of other commodity exports. After the Second World War this share recovered rapidly to reach more than 63 percent of total exports in 1950 and still more than 56 percent in 1960. Raw cotton exports were relatively important until the early 1950s. Manufactured exports rose during the Second World War as traditional suppliers were displaced in Latin America and South Africa. But the return to normalcy after the war led to their sharp fall.

The export–GDP ratio was more than 13 percent in the late 1920s. After reaching a minimum of nearly 4 percent in the mid-1960s it started to rise slowly after 1964 to reach 8.3 percent in 1980. Exports of manufactures had accounted for less than 3 percent of total exports in 1960. Export incentives introduced after 1964 fostered a major change in export structure as manufactured products continuously increased their importance, reaching 11.2 percent of total exports in 1970 and 44.8 percent in 1980. Another important structural change was the very rapid rise in exports of soya products from 2.6 percent of total exports in 1970 to 11.2 percent in 1980. This was only slightly below the combined share of coffee and soluble coffee in 1980. Other important commodity exports at the end of the period included iron ore and, in a rather secondary position, raw sugar. Some of the expanding manufactured exports were agricultural processed products of which the most important were orange juice, processed sugar and processed beef. In 1980 coffee exports had decreased to 1.9 percent of the total exports.

Exports in 1928 were mainly directed to the United States (45 percent), Germany (11.2 percent), France (9.2 percent) and a large number of smaller European economies as well as Argentina, all with market shares around 5–6 percent of exports. Britain had become a minor export market buying only 3.4 percent of Brazilian total exports. During the 1930s there was some recovery of the British share and a substantial rise in the relative importance of exports to Germany, which reached a peak of almost 20 percent in 1938, and to Japan. During the Second World War the destination of export trade was diversified. Nontraditional markets gained importance in both Latin America and Southern Africa as trade with continental Europe became almost insignificant and more than half of total exports were destined to the United States. In the 1950s there was a gradual fall in the share of the

United States: in 1960 it was below 45 percent. The Europe of Six (EC-6) share rose to nearly 20 percent and the British and Argentine shares hovered around 5 percent. In 1970, the United States share had declined further to a quarter of exports and the share of EC-6 markets rose to 30 percent. Latin American markets absorbed 11 percent of the Brazilian exports (more than 60 percent to Argentina). As countertrade increased in the 1970s, especially in the form of oil for manufactures deals with oil producing economies, shares in total exports of traditional markets decreased: 17.4 percent, to the United States, 23.9 percent to the EC-6 and 2.7 percent to the United Kingdom. Export markets in oil economies and in Latin America became relatively more important.

Imports also reached a peak in 1928. All capital goods and durable consumer goods were imported and the share of import duties in total Federal revenue was nearly 50 percent. Food imports were relatively unimportant except for wheat and luxury goods such as salted cod and wines. The economy was dependent on energy imports, because domestic coal was of poor quality and no oil was found until 1939. But there was widespread use of wood as a substitute for coal and liquid fuels. The import tariff had been declining since the beginning of the century, but it was still relatively high: the ratio between duty collections and the value of imports in the late 1920s was above 25 percent and much above 30 percent in the early 1930s. This ratio is a poor indication of protection afterwards as quantitative controls became the rule. Protection was considerably increased in the 1930s and started to be reduced rather slowly only after 1967. But this liberalising trend was reversed after the oil shocks of 1973–1974 and 1978–1979 when protection became absolute for many products. In 1980, the average tariff measured as a ratio of import duties and the value of imports was only 7.7 percent, but imports were restrained by significant nontariff barriers. Average nominal protection was 99.4 percent, but implicit nominal protection measured by direct price comparison with world prices was much lower at 22.8 percent for manufacturing.

The main suppliers of imports in 1928 were the United States (26.6 percent), Great Britain (21.5 percent), Germany (12.5 percent) and Argentina (11.5 percent). In the 1930s imports from Germany gained ground as the British share contracted. During the Second World War, imports from the United States rose to 60 percent of total exports. This declined to around a third of total imports between 1950 and 1970. The United States share fell to less than 18 percent in 1980 and the EC-6 share to 13.2 percent. After the two great oil shocks, the share of oil in total import increased to more than

50 percent of total imports. It had been only 9 percent in 1970. Oil supplier countries in the Middle East, and to a lesser extent in Africa and Latin America, became major sources of Brazilian imports. The import-GDP ratio which was above 10 percent in 1929 reached minimum values barely above 4.3 percent in 1953 and again in 1964 and remained firmly below 7 percent for most of the 1960s and 1970s. With the opening up of the economy in the 1960s it reached 11.3 percent in 1974 and 9 percent in 1980, but this was also explained by the steep rise in oil prices.

The terms of trade deteriorated by almost 40 percent in the 1928–1931 period then, after a temporary rise, fell to less than 50 percent of the 1928 level in 1940. Recovery was slow during the War, but then quite rapid as coffee prices boomed: in the early 1950s the terms of trade were back to the 1928 peak level and more than 30 percent above it in 1954. They remained hovering around a level 25–30 percent below this peak in the 1960s and 1970s.

In the late 1920s, a significant trade surplus was still the rule as in spite of the inflow of capital the services account was negative due to interest payments, profit remittances, freight payments and immigrants' remittances, and there was, especially after 1927, heavy debt repayment. A positive trade balance was maintained under normal circumstances. Import booms, in 1952 and in the early 1970s, and the two oil shocks reversed this position, but only temporarily.

Brazilian public foreign debt in 1928 was substantial at US\$1,142 million. The debt–export ratio was 2.36 and debt service corresponded to almost 25 percent of exports. Debt ratios increased with the exchange crisis in the early 1930s reaching five in 1931. With successive negotiations in the 1930s and 1940s and no new private voluntary lending to Brazil between 1931 and 1967, it became very small. Then the debt–export ratio started to rise with the export stagnation to reach three and only receded after 1964. Brazil's debt had increased substantially in the 1970s so that in 1980 it was back to three and rising. Foreign reserves, which were near zero in 1930–1931, rose to more than twice the value of imports in 1946, but were partly unconvertible into scarce U.S. dollars. Then they were slowly run down to reach only a quarter of yearly imports in 1964. They recovered to reach roughly the value of yearly imports in 1974, but fell under this threshold towards the end of the decade.

Direct foreign investment was of the same magnitude of public foreign debt by the end of the 1920s, but of the total of more than US\$1,200 million

at least one-third corresponded to lower-quality, French investments which were wiped out by the depression. In the end of the 1920s, most of the foreign direct investment, of which a half was British, was concentrated in public utilities and most of it in railways. United States investment was in modern utilities such as electricity, manufacturing and distribution services. In 1980, the total stock of registered direct foreign investment was US\$17.5 billion, of which US\$5 billion from the United States, US\$5.8 billion from nine European countries (US\$2.4 billion from Germany) and US\$1.7 billion from Japan. The stock of British investment was US\$1.1 billion. In 1930, foreign banks still played an important role in Brazil holding about a quarter of total loans and discounted bills, but their importance had steeply declined since the beginning of the century with the increased importance of Banco do Brasil and other state-controlled banks. It was to decline even more: by 1945 this share was only 5.2 percent and 1.2 percent in 1964. Recovery in 1980 had been modest with their share reaching 16 percent.

In line with developments in many peripheral economies in the second half of the 1920s a currency board arrangement had been introduced at the end of 1926, with a *Caixa de Estabilização* [Stabilisation Office] exchanging gold and foreign currency at the rate of $5^{31}/_{32}$ pence per mil-réis. But the external crisis that began in mid-1928 led to the establishment of foreign exchange controls in 1931 and the almost permanent interference of the government in the allocation of foreign exchange through discretionary policies. This was to persist for the whole half-century. Long-term comparisons of the real rate of exchange are intractable due to data shortcomings and the prevalence of controls, but there was an antiexport bias for most of the period especially affecting nontraditional exports. After the 1960s it is reasonable to consider that there was a substantial increase in the remuneration of nontraditional exporters, but this tended to depend on the discretionary distribution of incentives and subsidies.

Inflation between 1930 and 1980 was considerable. A comparison of exchange rates provides some indication of its magnitude which does not rely on the initially defective price indices: it was 8 mil-réis per U.S. dollar in 1930 and 52.7 cruzeiros per U.S. dollar in 1980. In 1942, the mil-réis had been rebaptised cruzeiro, and in 1967–1970, a further monetary reform had removed three zeros from prices but confusingly maintained the denomination of cruzeiro after a short period when the monetary unit was the cruzeiro novo. So devaluation of the mil-réis in relation to the U.S. dollar

was at the annual average rate of 19.2 percent. The peak of annual inflation during this half-century was in 1963–1964 when price indices approached the 100 percent level.

There was a sharp change in the tax structure during the period as customs duties, which previously answered for 55.3 percent of tax revenues, declined in 1980 to 10.9 percent. The share of income tax increased from the almost negligible 4 percent in 1928 to 40.2 percent in 1980. Excise taxation also increased (from 25.9 percent to 34.3 percent of tax revenue) and taxation on financial transactions remained stable around 14 percent. Internal debt as a proportion of GDP in the end of the 1920s was around 8 percent. This increased considerably in the 1930s but then fell steadily to 5–6 percent in the late 1960s as the government was unable to place loans denominated in domestic currency, as the combination of high inflation and the limits imposed by usury law resulted in negative real interest rates. With the introduction of monetary correction the trend was reversed and the ratio hovered in the direction of 10 percent of GDP by the end of the 1970s. Combined inflation tax and transfers played an important role in certain subperiods during this half century. They were strongly negative in 1930–1931 and became positive and high – around 6–7 percent – in periods such as the mid-1930s, the Second World War and the early 1960s. Towards the end of the 1970s it was again nearing 6 percent.

There is no set of data available which can serve as a basis for a comparison between 1930 and 1980 from the point of view of assessing the importance of the state in the economy. From the mid-1940s there is (not very good) information on the share of government in total investment. This rises from less than 20 percent to more than 40 percent in most of the years between 1957 and 1964. After the 1964 military coup this share continued high but the trend declined as the public sector started to face an important financial squeeze. In 1980, it was below 30 percent. In more qualitative terms there is a clear increase in the scope of government intervention in the half-century after 1930. State-owned enterprises became dominant suppliers of goods and services, especially of basic industrial inputs and energy. There was practically no private investment in the provision of public services. Government intervention became the rule in the administration of successive foreign exchange regimes. In 1980 the government was, if anything, increasing its interference in the process of foreign exchange allocation due to the renewed balance of payments difficulties resulting from the 1979 oil shock.

THE BRAZILIAN ECONOMY, 1930–1945

Depression and Recovery, 1928–1933

Brazil was among the developing countries which first faced the unfavourable consequences of changes in the international economic conditions after mid-1928. The significant inflow of foreign capital, especially in the form of indebtedness of all three levels of government, was interrupted in the middle of the year. Monetary contraction followed, as the level of foreign reserves in the Caixa de Estabilização started to fall. Between the end of 1928 and the end of the third quarter of 1930, the monetary base fell by 14 percent. Coffee price support, under the administration of the State of São Paulo since 1924, depended on the ability to raise foreign loans on a permanent basis. A bumper crop in 1927 had been followed by yet another in 1929. Accurate crop forecasts can be based on the flowering of the coffee trees almost a year before the crop, so that already in 1928 it could be anticipated that, barring a severe frost, the 1929 coffee crop would be very big. The lack of foreign finance and the increase in stocks resulted in the collapse of coffee prices towards the end of 1929. These difficulties were compounded by the fall in economic activity in the United States, then in all Brazilian export markets. By the end of 1929, Santos 4 coffee prices had fallen from eleven pence to less than seven pence per pound. The fall would continue in 1930 and 1931 to reach a trough at around four pence per pound. The Federal government refused to bail out the ailing coffee support programme of São Paulo and stuck to the gold standard. Reserves dwindled as exports fell and the inflow of loans was again interrupted after some recovery in the first half of 1930. There were widespread bankruptcies in agricultural activities: coffee growers could not pay their debts as prices fell much below the advances they had received from the valorisation authorities in the past.

In every country in Latin America economic difficulties in the late 1920s and early 1930s caused by the crisis fostered political unrest and led to changes of government, most of them through political coups. In Brazil, Getúlio Vargas, former governor of Rio Grande do Sul, who had been defeated by the 'official' candidate, Júlio Prestes, former governor of São Paulo, in the presidential elections in March 1930, initiated an armed rebellion in October which led first to a military coup to remove the outgoing *paulista* president Washington Luís and then, in November, the handing over of power to a Provisional Government headed by Vargas. The

new president faced an extremely serious economic crisis. Foreign exchange reserves which had stood at £31 million in September 1929 reached £14 million in August 1930 and had disappeared by November. Coffee prices and the foreign exchange rate were still plunging, there was a substantial fall in the level of output and a severe fiscal crisis followed foreign exchange devaluation after mid-1930.

Although the 1930 Revolution represented a challenge to São Paulo hegemony, political and economic, an important *paulista* rump had backed Vargas for the presidency in 1929–1930. They were duly represented in government by the new Finance Minister, José Maria Whitaker. The basic stance adopted by the new minister was to wait and see what were going to be the consequences for Brazil of the crisis in the developed economies. In spite of the continuing fall in coffee prices, public foreign debt service continued to be paid and there was no decision on a permanent basis on the foreign exchange regime. Monetary policy continued to allow the monetary base to fall even after foreign reserves had reached zero and convertibility ceased. The foreign exchange policy did not explicitly involve controls, but in fact there was a succession of moratoria on foreign – and domestic – debts and many ad hoc decisions which did not interrupt the exchange rate devaluation trend. The government resorted to unorthodox policies, such as barter with Germany and the United States, to face the scarcity of foreign exchange.

Government intervention in fact sustained the foreign exchange rate, avoiding full devaluation. This was in line with experience in other developing economies but in the case of Brazil there was a more complex set of arguments to justify it. It was well-known that devaluation resulted in an adverse fiscal impact as a significant share of government expenditure was indexed to the exchange rate, as for example the debt service, while revenues were not. In fact, revenues were more likely to fall with exchange devaluation: import duties still corresponded to almost 50 percent of total revenue and the Brazilian tariff was specific, that is defined in terms of units of domestic currency per physical unit, and only partly pegged to gold. An overvalued exchange rate made it easier for economic agents indebted in foreign currency, and particularly the government, to pay their debt service. The same argument applies to profit remittances, and it is especially important for those firms providing public services as their revenues were dependent on rates defined in domestic currency. If a country is a significant world supplier of a particularly commodity, the world price of such commodity will be influenced by the exchange rate regime in the

major supplier. Devaluation will stimulate holders of commodity stocks to dump their goods in the market with a consequent reduction in world prices denominated in foreign currency.

An overvalued exchange rate also made imports relatively cheap. How this affected final consumers depends crucially on the distribution of market power in specific markets. The more market power a domestic firm has, the more likely it is that cheap capital goods and input import prices will be transformed into higher profits. The volume of imports was of course limited, either informally, or by explicit rationing by means of discretionary controls.

The only major decision reached during this first year of economic policy-making under the provisional government was on coffee. The government considered the alternative of either to buy the flow of new output from coffee growers, or to bail out those economic agents who had been involved in the accumulation coffee stocks in the boom period. Whitaker's opted for the bailout of the latter. During most of his year in office, Whitaker kept hoping for a new foreign loan which would signal that the world financial markets were back to normal and that Brazil could use foreign loans to restore balance of payments equilibrium. It took some time to become clear that this was not to be. The blunders of Edwin Morgan, the U.S. ambassador to Brazil, in convincing Washington that Vargas was not going to succeed in his bid for power, opened political space for British financial interests focussed on Brazil to try to exert some influence on the course of events. Following up initial talks with Júlio Prestes, the Brazilian president-elect who would not take office because of the October *golpe*, the Brazilian authorities were prompted by N. M. Rothschilds to invite a British expert to give advice on the financial position. The British expert, Otto Niemeyer, produced a report in early July 1931 which included standard orthodox recommendations, such as that Brazil should phase-out its coffee price support policies, bring its finances under control and curtail the independent foreign borrowing by states and municipalities. More notably it included complete draft statutes for a Central Bank totally independent from the government – with significant foreign influence – as well the recommendation that Brazil should return to the gold standard. To do be able to do so Brazil was to raise a sizable new loan in the London market. The abandonment of the gold standard by the United Kingdom in September 1931 put an end to optimistic views of a business-as-usual nature and to the hopes of financial support in London. The consequences on Brazilian policy-making were immediate. Brazil decided to suspend

servicing the federal debt and announced a funding loan arrangement on the federal debt – the third, following those of 1898 and 1914 – through which amortisation payments were suspended and interest was paid with new bonds issued during three years.

In November Whitaker was substituted as Finance Minister by Oswaldo Aranha, one of the leaders of the 1930 Revolution and the man with the strongest political clout in the Vargas administration. New policies were introduced on the foreign exchange regime and coffee, issues which had been left undecided although the government had still some hope that the back to normal scenario could prevail. Marking the inauguration of an extremely long period of government intervention in the foreign exchange markets, the government decided to adopt an exchange regime which involved government monopoly in purchases and sales of foreign exchange cover. Because the exchange rate was relatively overvalued, the excess demand for foreign exchange was removed by controls taking into account criteria which ordered by declining importance: official purchases, 'essential' imports and other exchange cover. The latter included profit remittances, imports on a nondocumentary basis and commercial arrears.

Between 1928 and 1932, imports in U.S. dollars fell by more than 76 percent while exports were reduced by more than 60 percent. Terms of trade deteriorated by more than 35 percent and the capacity to import fell 40 percent. Imports were crowded out by other types of expenditure in foreign exchange as shown by the gap between the shrinkage of capacity to import and of import volume. The average mil-réis–U.S. dollar devaluation was 8 percent in 1930 and 55 percent in 1931 so that, as domestic prices fell by 11–12 percent in both years, real devaluation of the mil-réis was of more than 110 percent in relation to the dollar. The significant expenditure-switching caused by devaluation and discretionary controls on imports had important beneficial consequences on the level of domestic output as spare industrial domestic capacity was put to use. That there was scope for such a switch tends to qualify the more extreme criticisms of the inefficiencies of import-substitution that had begun with the first spurt in industrial growth in the early 1890s.

It is certainly not reasonable to construe such policies as a result mainly of a conscious move in the direction of compensating for the effects of the depression, as there was not, in fact, much room to avoid devaluation. Based on rather shaky evidence on the tariff policy it is still less reasonable to characterise policy in the initial years of Vargas's rule as being somehow anti-industrial. Not only the tariffs were not decreased but, more decisively,

any assessment of protection in most of the period after 1930 must take into account the crucial role played by import and foreign exchange controls. Tariffs were wholly relevant only in those periods when there was no rationing of foreign exchange, which during the 1930s was true only in the years 1935–1937.

Other public policies, such as those related to coffee, had an important effect in maintaining the level of economic activity. With Aranha as the new Finance Minister, the Federal government officially took over coffee policy from the state of São Paulo, and an embryo of what would become the *Departamento Nacional do Café* [National Coffee Department] was created. The new coffee policy would be maintained with relatively minor adjustments until 1937. It was based on the attempt to solve the massive overproduction which affected coffee. In 1933, when the policy was made permanent, 30 percent of the annual coffee crop was freed for immediate commercialisation, 30 percent was stocked by the Departamento Nacional do Café and 40 percent was destroyed. More than seventy million bags of coffee – equivalent to about three years of world consumption – were destroyed by the early 1940s, mainly between 1931 and 1938.

Government purchase of coffee stocks depended partly on sizable deficits, which reached in some years more than one-third of the total cost of the coffee support program. Although it is reasonable to see some Keynesianism *avant la lettre* in such policies the same could have been said of other important expenditure programmes in the Old Republic financed by deficit creation: the significant construction of dams in the early 1920s comes to mind. That Getúlio Vargas comes to be more often mentioned as an instinctive pre-Keynesian is perhaps to be explained by the apparent irrationality of both Keynes's digging holes on the ground and the massive destruction of coffee stocks as an important element of Brazilian coffee policy for most of the 1930s. Data on the aggregate public deficit in the 1930s tend to support the link between early recovery of the level of activity and public deficit: deficits in 1931–1933 were above 12 percent of expenditure (40 percent in 1932) and after 1933 planned deficits became usual. Policies which speeded up recovery also included the *Reajustamento Econômico* [Economic Readjustment] of 1933 which wrote off 50 percent of coffee agricultural debts and allowed renegotiation of residual debts with generous periods of grace. Brazilian banks survived the crisis with the help of the Federal government. Monetary policy was accommodating during the period and a new *Caixa de Mobilização Bancária* [Monetary Mobilisation Office] was created in 1932. It introduced new rules on compulsory reserves

and the deposit of excessive reserves in the Bank of Brazil and financed the needs of the Treasury and of the Departamento Nacional do Café. It supplemented the activities of the *Carteira de Redescontos* [Rediscount Office] of the Bank of Brazil which had been reactivated in 1930.

The effects of the Depression on the level of economic activity in Brazil were relatively mild as by 1933 GDP was already 7.7 percent above its 1929 peak level and industrial output was 4.6 percent above the 1928 peak level. The worst years for industry had been 1930 and 1931, with output 8–9 percent below 1928. The trough for GDP was reached in 1931 with GDP 5.3 percent below its maximum in 1929. But the impact on real income was more important as the terms of trade deteriorated.

In spite of foreign exchange and import controls, significant commercial arrears accumulated. The government as a monopolist in the foreign exchange market could not find enough exchange cover to pay promptly foreign suppliers of goods. Foreign firms operating in Brazil also could not make remittances to their main offices. Such accumulations led to successive negotiations of mid-term loans with foreign creditors, more importantly with the United States and Britain, and especially so in 1933, 1935 and 1939.

Traditional direct foreign investment in the provision of public services such as railway transportation and electricity faced increased difficulties in relation to the inability to maintain the return on their investments as public prices were not adjusted to compensate the devaluation of the mil-réis. The transfer of such reduced profits also faced significant delays in the periods of more intense scarcity of foreign exchange. The result was persistent underinvestment and a declining quality in the services provided even by the best foreign concerns. Investment in manufacturing fared much better as there were no significant obstacles to pricing output at what the market would bear. Since most of the British investment was concentrated in railways, and the share of manufacturing in total U.S. investment was increasing rapidly, this tended to be reflected in different stances on exchange control by British and U.S. firms operating in Brazil.

Although it is true that state interference in the economy substantially increased after 1930, much of it is to be explained, at least initially, less by an ideological, or even political, commitment to increased state interference as part of a growth strategy, than by the drastic changes in economic conditions which resulted from the 1928–1933 Depression. This is illustrated by the introduction of foreign exchange control as a discretionary policy adopted worldwide to face balance of payments shocks after 1928. That

this form of government interference had such a long life in Brazil after the 1930s was certainly more closely related to new ideas on the role of the State than the decision to introduce it in 1931. The centralisation of decision-making was also partly related to these new developments. The transfer problem had become a significant aspect of Brazilian policy as responsibility for the transfer of foreign exchange cover related to private and public payments was transferred to the foreign exchange control authorities and became clearly differentiated in relation to the ability to pay in mil-réis. States and municipalities had enjoyed free access to foreign borrowing without any interference from the Federal government according to the Constitution of 1891. With the world depression the Federal government became interested in the size of liabilities in foreign exchange accumulated by Brazilian states and municipalities and created a *Comissão de Estudos Financeiros e Econômicos dos Estados e Municípios* [Commission of State and Municipal Financial and Economic Studies]. As mentioned, the Federal government took over control of coffee policy from São Paulo and created in 1931 the Conselho [Departamento after 1933] Nacional do Café. The first sign of a new policy on state intervention was perhaps the creation of two new ministries – Education, then Labour, Industry and Commerce – after Vargas took power. New policies were also introduced to cope with sugar overproduction, including the compulsory mixing of alcohol in imported petrol. In 1933, Instituto do Açúcar e do Alcool was created to manage the complex sugar output and export policies introduced since 1931. But it was only after 1933, and still more after 1937, however, that State intervention was consolidated in the case of many other sectoral policies.

Economic Boom, 1933–1936

Brazilian economic policy after 1933 became more liberal with the fast domestic recovery in output, and in tune with the improvement of international economic conditions. Emphasis on dynamism of *hacia adentro* factors, in comparison with stimuli provided by world economy, must not obscure the fact that shifts in economic policy and in the level of domestic economic activity were dominated by the world economy. This continued to be the case in most future cyclical developments which affected the Brazilian economy, with the major exception of the crisis in the early 1960s.

In 1933 the Bank of Brazil had started to abandon its single pegged rate policy and was in fact operating with three foreign exchange markets:

70 percent of total exchange was bought and sold at the official rate to the government, to merchandise importers and to foreign-owned public services companies with fixed charges due abroad; 20 percent corresponded to a 'grey' market where 50 percent of almost all noncoffee export bills were bought and almost all exchange was sold to companies remitting profits; and less than 10 percent to a 'free' market fed by nonmerchandise exchange proceeds and used for residual transfers abroad. On average there was even some appreciation of the mil-réis in relation to the U.S. dollar in 1933–1934.

Substantial exchange arrears had accumulated in 1930–1933, leading to widespread protests by creditors. In the United States the intense pressure by some business interests, which counted with the sympathy of sections of the government, and in special of those advising the adoption of bilateral remedies in countries with which the United States had a trade deficit, led to an official U.S. mission to South America. The lucid report produced by John Williams, of the Federal Reserve Board of New York, recognised the difficulties faced by primary exporting countries following the depression. He found that, given the circumstances, Brazilian foreign exchange policy was rational, and that there was no evidence of discrimination against U.S. interests. It made sense for a commodity price-maker such as Brazil to maintain its somewhat overvalued exchange rate. This produced excessive demand for exchange cover and the need for exchange control which blocked imports of some luxury goods produced by the United States. But this was inevitable and there was no evidence of discrimination against the United States. After Aranha was substituted by Artur de Souza Costa as Minister of Finance in mid-1934, a further movement towards liberalisation occurred in September as all noncoffee export bills, as well as all exchange generated by coffee above a quite high threshold, could be sold in the free market. The official market would be fed by 155 French francs per exported coffee bag, and the Bank of Brazil would sell 60 percent of the exchange required by approved imports at the 'official' rate. The residual exchange would be purchased in the 'free' market.

There were important balance of payments difficulties in the beginning of 1935 and a concrete risk of a Brazilian default on the foreign debt. The negotiations on commercial arrears in Washington and London made it possible to avert the crisis and paved the way for further liberalisation of the exchange policy. The 1935 the new foreign exchange regime continued to be based on the idea that nontraditional exports should not suffer from the relatively overvalued exchange as, contrary to what was the case of

coffee, in all these cases Brazil was a small supplier, and thus a price-taker in world markets. The foreign exchange regime relied on blending two exchange rates pegged by the authorities with an 'official' rate that was more overvalued than the 'free' exchange rate. Coffee exporters were to sell 35 percent of their export proceeds to the Bank of Brazil at the official rate. Nontraditional exporters could sell as much as 100 percent of their export proceeds at the free rate. The government bought exchange at the official rate, while all other purchases were made at the free rate. The government was thus able to buy exchange cover at a cheaper rate and extract gains from the wedge between the two rates. The weighted average exchange rate against the U.S. dollar in 1935 and 1936 was at roughly the same level as it was in 1932.

From the middle of 1935 there was a sharp improvement in the balance of payments and 1936 was an extremely good year from the point of view of output growth and the balance of payments. Exports increased by 17 percent and imports by less than 2 percent. But from early 1937 there were indications that the economy was overheating and the expansion of more than 40 percent of import value was not matched by the 9 percent increase in exports. These difficulties were compounded by a more liberal policy on remittances adopted by the Bank of Brazil. The terms of trade recovered to reach about 70 percent of the peak 1928 level. But then they fell more: in 1938 they were only at 50 percent of the 1928 level. The fall in the capacity to import was less than 30 percent as volumes exported rose. Weighted *ad valorem* duties suggest that the trade policy, as indicated by tariff levels in the early 1930s, was more protectionist than in the late 1920s. By 1936–1937 the level of protection had been modestly reduced, but was still roughly equivalent to that of 1928.

Brazil was deeply affected by new developments in the trade policies of the United States and Germany, two of its most important trade partners, after 1934. In the United States, commitment to liberal policies prevailed after a long struggle between multilateralists and bilateralists. The United States had been pressing for concessions from Brazil even before approval of the 1934 Reciprocal Trade Act. Negotiations led to a new trade agreement in 1935 which considerably reduced the Brazilian tariff level. There had been, however, considerable tariff padding in 1934 as Brazil preemptively increased its tariff levels. On a straight import revenue reduction basis, reciprocal concessions were equivalent, but while exports to the United States were mainly of commodities which did not displace domestic producers, this was not the case of imports into Brazil as concessions were

concentrated on manufactured goods such as transport equipment, including auto parts, chemicals, cement and durable goods. After strong resistance, especially in São Paulo, the agreement was ratified in 1936. In spite of the steep rise in manufactured imports there is no evidence of important damage to domestic industry whose output increased at a very high rate in 1936 and almost 4 percent in 1937 in spite of stagnation in agriculture and its impact on the food-processing industry.

In 1934 Germany had adopted Finance Minister Hjalmar Schacht's New Plan which served as a basis for the negotiation of compensation agreements with many of its trade partners. There was never a formal agreement, given the opposition of the United States because of the resulting subsidisation, trade diversion and discrimination, but bilateral trade expanded based on a more informal understanding between the Bank of Brazil and the Reichsbank. All proceeds of German purchases in Brazil were paid into a Bank of Brazil account in the Reichsbank which could only be used to purchase German goods. Trade patterns in 1934–1938 were deeply affected by such developments as the aggregate German share of the Brazilian market (corrected for the overvaluation of compensation marks) rose from 12 percent to 20 percent of total imports. The United States share of Brazilian imports increased from 21.2 percent to 25.5 percent while the British share fell from 19.4 percent to 10.9 percent. German goods displaced traditional imports from the United States, but the United States aggregate share did not fall as U.S. goods displaced traditional British manufactured exports. The German share of the export market also increased substantially from 7.4 percent to 15.9 percent total exports, a result of the importance of coffee and cotton purchases. Cotton exports were also the main explanation of the expansion of exports to Britain in the 1930s. The fall in the United States share of Brazilian exports resulted also from the fall in coffee prices in relation to all other export prices: it was an automatic consequence of the long-term cyclical behaviour of coffee prices. Cotton exports increased from 4 percent to 18 percent of total exports between 1928 and 1938, while coffee exports decreased from 71 percent to 45 percent.

The attraction of compensation trade with Germany was sufficiently strong to justify a continuous ambiguity in Brazilian foreign economic policy as the United States applied pressure to block the arrangement. The expansion of cotton exports provided an outlet for the substantial increase in Brazilian domestic production, but the fact that Brazil was indirectly profiting from the price umbrella provided by the U.S. cotton support programme acted as a further irritant to the United States in its quest to end

with the compensation trade. Quite diversified Brazilian regional export interests, mainly in the Northeast and the South, were able to find outlets to their output of primary commodities which would have been otherwise very difficult to sell. The level of imports was similarly higher than it would have been without a compensation trade deal. The German proposal to include the supply of armaments in the Brazilian purchase programme was a shrewd move as it automatically enlisted the support of the armed forces for the continuity of the arrangement. The standard argument used by the U.S. government on the inefficiency of compensation agreements was really not very relevant when there was massive idle productive capacity such as in the 1930s.

United States policy towards Brazil in relation to compensation trade, as well as in other issues such as the foreign debt, was to avoid the use of strong-arm methods in spite of the considerable U.S. leverage over Brazil due to its structural trade deficit in the Brazilian trade. This is explained partly by its overall commitment to multilateralism after 1934, which prevented the use of pressure of the kind the British used in Argentina, and also by the increasingly central role that Brazil had in U.S. strategic thinking on South America as a form of containment of Argentina. Policy-making in Brazil enjoyed degrees of freedom which did not exist in Argentina, and Brazilian policies reflected this difference.

The three-year time limit established by the 1931 Funding Loan expired in 1934. In 1933 Sir Otto Niemeyer, returning from a trip to Argentina where he had acted as an adviser on the future Central Bank, made a stopover in Rio and left with Finance Minister Aranha a note in which the essential features of a new arrangement on the foreign debt were defined. These new ideas tried to accommodate the creditors' dissatisfaction with the lack of cash payments resulting from the funding loan and also Brazil's reluctance to agree with the rapid rise of outstanding foreign debt without any relief. In what became known as the Aranha scheme, all foreign loans to all levels of government were graded in categories according to the quality of their guarantees. The higher a given loan was classified, the higher the proportion of amortisation and interest paid in relation to contractual terms. Payments were in some cases to rise slightly over the four years of the agreement. The gap between contractual interest payments and actual interest payments corresponded to debt relief. Total service was equivalent to about one-third of the contractual service with, of course, a much higher share of interest payments. Direct foreign investment from Britain and the United States had contracted by more than 10 percent in both cases between

1930 and 1936. In the case of U.S. investment, it started to recover in the late 1930s.

GDP growth between 1933 and 1936 was at an annual rate of 8 percent. Industrial output increased at 13.4 percent yearly and agricultural output at 4.2 percent, in spite of a very bad crop in 1935. This outstanding industrial performance was partly due to the extremely good performance of the textile industry whose output increased 16.8 percent yearly in this period. Textile production corresponded to about 20–25 percent of the total industrial value added. Given that import substitution was complete in food processing, which corresponded to about 35 percent of industrial value added, it could not grow much above agricultural output. Output of the chemical industry, which was less than one fifth of the textile industry in the early 1930s, increased even more spectacularly at 23.8 percent annually. Other ‘new’ sectors, such as cement, tyres and steel products, also had very high rates of growth, but their relative importance in total industrial value added was rather limited. According to census data from 1919 to 1939 the import–domestic supply ratio, using current prices, decreased only from 25 percent to 20 percent. But the change in relative prices – when imports became much more expensive – hid the sharp advance of import substitution. Using 1939 prices this is nothing short of spectacular, as the imports–total supply ratio fell from 46.6 percent to 19.7 percent.

Although there was a substantial increase in the share of industry in GDP in the 1930s this was roughly similar to that which had occurred in the 1910s. No evidence can be found which could justify emphasis on ‘endogenous accumulation’ as an explanation of industrial growth from the early 1930s. There was a sharp fall in investment, with imports of capital goods for industry back at a level 80–90 percent of their 1928 peak only by the late 1930s. There was no significant domestic capital goods sector at best before the end of the 1950s, especially if the production of capital goods for manufacturing industry is considered. The industrial boom in the 1930s was mainly based on the use of installed capacity in traditional branches of industry, and especially of textiles. Between 1931 and 1936, cotton production expanded 25 percent annually due to the shift from coffee production in the South and the inducement of new markets in Germany and Britain. All other major agricultural activities lost shares in agricultural output, with the exception of cocoa and beef production. Subsistence agriculture, however, was still generally growing faster than population.

The normative presence of the State in the economic field increased markedly after 1934. An extremely influential *Conselho Federal de Comércio*

Exterior [Federal Foreign Trade Council] was created. Its influence went much beyond trade matters and covered all issues related to economic development, such as the integrated steel mill project which was to become a government priority in the late 1930s and early 1940s. Other so-called defence institutes started to take shape, but mainly at the state rather than national level. They covered cocoa and tobacco in Bahia and rice and beef in Rio Grande do Sul. In 1936, the Federal government was spending in real terms 92 percent more per unit of GDP than in 1928, if payments of the foreign debt service are excluded. Much, but not all, of it had been directed to the Army which, together with the Ministry of Finance (excluding foreign debt service), was the department with the highest rate of expenditure increase in the period. The structure of Federal revenue had started to change slowly after the recession as the shares of both the consumption and income taxes started to rise in detriment of import duties. But in 1937 import duties still just exceeded the joint revenue related to the major domestic taxes: consumption tax (21.7 percent of total Federal tax revenue), income tax (7.6 percent) and the stamp tax (7.7 percent).

Recession and Wartime Growth, 1937–1945

In November 1937 when Vargas delivered his *autogolpe* and established the Estado Novo dictatorship there had been a clear deterioration of the economic situation which had been favourable since 1933. To the overheating of the domestic economy was added the fall in the level of activity in the United States which badly affected Brazilian exports. Balance of payments difficulties became once again all important. In his address to the nation to explain the Estado Novo, Vargas defined a clear reversal of the previously liberal economic policies on the foreign exchange regime, the foreign debt and coffee. The new foreign exchange policy was a return to that of 1931–1933, based on a government foreign exchange monopoly with a unified overvalued exchange rate and import controls. The new unified rate was roughly equivalent to the previous ‘free’ rate but was devalued almost 50 percent in relation to the previous official rate. Contrary to what could be expected, however, import controls did not result in an import structure which favoured ‘essential’ goods in 1938.

Vargas also announced that payment of the foreign debt service would be suspended as the government had decided that there were more essential commitments related to economic development and reequipment of the armed forces. The outcry, especially in London, was substantial, although

the reaction in Washington was subdued. There was growing concern in the U.S. Administration, and more especially in the U.S. Department of the Treasury, among the advisers of Secretary Henry Morgenthau, about the situation of key regional or subregional economies such as Brazil and China. For the first time, in spite of the opposition of the more conservative U.S. State Department, it is possible to detect a policy of fostering economic development of some of the larger developing economies as part of a package to gain or sustain U.S. political preeminence in targeted economies.

Brazil was to abandon some of its former coffee policies, drastically reducing export taxes and limiting stock destruction. In spite of established views, which would have predicted a fall in coffee export proceeds, exports increased after this change but this was caused by other factors. It was the contraction of other exports which affected the balance of payments position. Overall terms of trade collapsed further with the war reaching a minimum below 48 percent of the 1928 peak in 1940. Capacity to import fell less as exported volumes increased. Until 1945 terms of trade improved about 50 percent, especially after 1942, and capacity to import rose to reach a level 14 percent above its 1928 level.

With the deterioration of the international political situation Brazilian enthusiasm for holding compensation marks, which could remain blocked in Berlin for the duration of a possible war, cooled down considerably. Indeed, 1938 was the last year of significant compensation trade with Germany. The path was opened for a *rapprochement* with the United States, and indirectly with Britain. A Brazilian mission headed by Oswaldo Aranha, now Minister for Foreign Affairs, visited Washington, DC, in March 1939, allegedly to negotiate commercial arrears finance. Its main achievement was, however, to commit Brazil, in spite of much criticism by the military, to a reversal of its foreign exchange and foreign debt policies.

After Aranha's return the government announced a new foreign exchange policy which had some of the features of the 1935–1937 policy and would remain in place for the duration of the war. There were three exchange rates: a more appreciated 'official' rate, a 'free' rate and a 'free-special' rate. The new 'official' rate was revalued more than 5 percent in relation to the 1938 single rate. In the other extreme, the 'free-special' rate was 24 percent above the 'official' rate. Thirty percent of export proceeds were to be sold to the government at the official rate. All imports were to be paid at the 'free' rate and the financial remittances at the 'free-special' rate. In spite of the dearth of foreign exchange cover which was to last until 1942, Brazil

honoured Aranha's commitment that the foreign debt would be serviced and a new foreign debt agreement for four years was signed in June 1940. Payments were to be at 50 percent of the 1934 Aranha scheme last year so that annual payments were 4 million, equivalent to about a sixth of the service established contractually.

Brazilian export markets in Central Europe were closed for the duration of the war, as British blockade became binding. The war conditions also changed the structure of import demand in favour of inputs required by the war effort. After the fall of France, most Western European markets were also lost. Brazilian exports to nontraditional markets, in many instances also of nontraditional goods, became relatively significant. South Africa and many Latin American markets became important, absorbing textile and other manufactured exports in the wake of the contraction of exports by developed economies. The fall in demand for coffee and the consequent weakening of prices following the beginning of the war, led the United States to agree to the Inter-American Coffee Agreement in 1940 with the aim of supporting coffee prices. This had the explicit objective of avoiding an economic collapse throughout Latin America which could be politically exploited by Germany.

During the War Brazil and the United States signed a great number of supply agreements culminating in the Washington agreements of 1942. These agreements generally defined prices and quantities of goods to be exported to the United States, and though initially rather unrealistic, because there was limited knowledge of the actual Brazilian capacity to supply, came to cover a large number of commodities, some of which had not been exported before: coffee, cocoa, Brazil nuts, many types of ore, industrial diamonds, mica, quartz, rubber, cotton linters, burlap and castor beans. Specific agreements also regulated shipping because the lack of ships was an important additional constraint on foreign trade. It was not enough to make sure that goods were supplied, they had to be carried and German submarine warfare put shipping under heavy strain. In some cases, such as natural rubber, which had become extremely scarce since the producing regions in Asia had been lost to Japan, price incentives were complemented by other agreements which unsuccessfully tried to stimulate supply directly by improving sanitary conditions, transportation and food availability in the producing regions.

Very early in the War, the British government had recognised that for many commodities and in many countries its bargaining power would be enhanced by the lack of alternative buyers. It signed a number of payments

agreements, including one with Brazil. One of the objectives of these agreements was to make impossible the creation of a parallel market for sterling. An essential provision consequently was that sterling generated by exports to Great Britain would have to be deposited in specific accounts and could be used only to pay for British imports and other commitments in sterling, such as foreign debt service. Since British export controls were also imposed, such balances were bound to increase in the long run.

After initial difficulties, the British authorities made important purchases in Brazil, concentrated in beef and cotton. With the war, the demand for beef had increased, and Brazil, which had unsuccessfully tried to export to Britain in the 1930s, sold considerable quantities of beef to Britain until 1942. But it had thereafter to curtail exports due to adverse climatic conditions and domestic competitive demands. For the first time, Brazil became aware of the classical Argentinian problem of competition between domestic consumption and exports of staples. Cotton exports rose dramatically as, following a policy suggested by John Maynard Keynes, the British government accumulated strategic stocks in Brazil to meet the boom in cotton textile exports which was expected to occur after the war.

It has been suggested that the war period was particularly favourable to exporters as export prices rose faster than domestic prices. This was, indeed, the case. But only until 1942, when export prices had increased more than 28 percent in relation to the general price index since 1939 (and coffee prices increased almost 46 percent). The evolution of relative prices is not, however, sufficient to show that exporters were favoured by the War. The ratio of exports to GDP fell almost continuously from 11.8 percent in 1939 to 9.5 percent in 1945. The ratios of both coffee exports and other agricultural exports to GDP also fell. It was only in the case of manufactured exports that the ratio increased significantly: from 2.8 percent in 1939 to a peak of 5.7 percent in 1942. But even this was falling rapidly in the latter period of the War.

With the displacement of other suppliers of manufactured goods by a combination of economic blockade and, as in the case of Great Britain, export controls, Brazil became, from quite early in the War, almost entirely dependent on the United States' ability and willingness to supply and also to assure transportation priority. There is some evidence that Brazil was badly treated in comparison with Argentina in relation to supply by the Allies, a result of the relatively strong bargaining position of Argentina in relation to Britain. Scarcity of imports was of paramount importance to explain the performance of specific branches of industry. Some, such as

transport equipment, were assemblers which depended almost entirely on imports of parts and components, and ceased production for the duration. But others thrived as the competition of imports was removed. Joint import control by Brazilian and U.S. authorities in fact used, at least until 1944, evidence on the ability to produce locally as an important criterion to define import priorities.

The U.S. government's political commitment in 1940 to finance and supply the equipment required by the Volta Redonda steel mill gains particular relevance, given the overwhelming supply difficulties. It should be seen in the same light as the coffee price support commitment entered in the Inter-American Coffee Agreement and marks the peak of efforts by the United States to cajole Brazil. Suggestions that Brazil was able to exploit competition between the United States and Germany to supply the steel mill fail to take into due account the insurmountable difficulties faced by cargo movements without formal previous British approval through the emission of navicerts. The efficiency of British blockade had been underlined by the *Siqueira Campos* incident, when a cargo of artillery equipment purchased for the Brazilian Army in Germany before the war was intercepted by the British, and only released after much pressure by the United States. As the war progressed Brazil became an important recipient of Lend-Lease aid, some US\$332 million, which was partly used to equip the divisions which went to fight in the Italian theater in 1944.

During the War there was a reversal of the trend in relative prices that had favoured import substitution after the 1928–1933 Depression since the exchange rate was maintained constant and domestic inflation was much higher than world inflation. But relative prices were rather irrelevant in explaining the level of imports as these were essentially supply-constrained. It was after the war that imbalances related to foreign exchange appreciation would become relevant to explain the behaviour of imports and exports.

Exchange scarcity and continued recession persisted until 1942 because it took a relatively long period for the economy to adjust to the demand shocks. But as supply adjusted to the new war demands, exports started to recover in nominal values. Imports, however, increased much more slowly so that foreign reserves, which had been reduced to US\$65 million in 1940, increased rapidly to reach US\$270 million in 1942 and US\$682 million by the end of 1945. But a substantial share of these reserves did not correspond to command over future imports as their use was restricted in various ways as would become clear after the war. After 1942, with its capacity to import improving, Brazil was in the position of many peripheral economies which

had substantial foreign exchange and gold reserves but no goods to buy in the world markets. This was a marked contrast with the earlier war period when there was international supply but Brazil had no exchange cover available to increase its severely constrained imports.

The year of 1942, however, marked an economic turning point in Brazil for other reasons, besides the improvement in the balance of payments. From the point of view of growth, it was the last year of the difficult period of adjustment since 1937. Between 1936 and 1942, GDP yearly growth rate was only 2.1 percent, but from 1942 to 1945 it increased on average to 6.4 percent in spite of mediocre growth in 1945. The year 1942 was the beginning of a long period of growth of GDP in Brazil until the crisis in the early 1960s. Agricultural output had practically stagnated in 1936–1942 growing at a yearly rate of less than 0.3 percent. It is true that the 1942 output was rather badly affected by weather conditions, but the agricultural performance was consistently mediocre over this period and, in fact, would continue to be so until 1945. From 1942 to 1945, agricultural output rose only 2.4 percent yearly, even after a long sequence of poor crops in the previous period. This growth record is almost entirely due to the contraction in output of traditional export crops. There was a much better performance of crops for domestic food consumption and, almost until the end of the war, of raw material crops, especially cotton. Cattle raising also expanded rapidly until 1942 but stagnated afterwards.

Industry had a much better performance than agriculture in the transition period, with output expanding at 3.8 percent yearly in 1936–1942. But there is a clear difference between the period immediately before the war, when growth was 6.1 percent yearly, and 1939–1942, when output increased only 1.6 percent yearly. It was in the last years of the War that the industrial boom, which was to last until the early 1960s, started, with output increasing on average 9.9 percent yearly. It is important to note that the textile industry had a better performance than industry overall until 1942. It was only in the final year of the war that its performance was worse than that of industry as a whole. After 1942 less traditional branches of industry, such as chemical products, started to increase output very rapidly.

Public expenditure per unit of GDP excluding the debt service had continued to increase in the late 1930s. In 1939 it was 110 percent above the 1928 level. But it declined during the war and in 1945 was about 8 percent below the 1939 level, corrected both for inflation and GDP growth. The government faced difficulties to raise revenues so that there was a clear deterioration in the public accounts: the Federal government deficit

which had corresponded in 1939 to 11.4 percent of expenditure rose to 24.5 percent in 1942. With the War there was a sharp rise in the importance of domestic taxes, such as consumption and income tax, while import duties collapsed. Between 1937 and 1942 income tax increased more than four-fold and consumption tax almost doubled, while import duties fell by more than 40 percent. With increased inflation rates, the government was unable to borrow as it was bound by constraints imposed by the usury law. The only possibility was to engage in compulsory 'borrowing' through the placement of '*obrigações de guerra*' [war obligations]. This expansionary public expenditure policy compounded the difficulties faced with the increasing imbalance reflected in the soaring balance of trade. Rationing, the other basic instrument to cope with excessive demand successfully used in Britain and, to a much lesser extent, in the United States, had only a significant impact on the consumption of specific products, such as beef, but it could not solve the severe aggregate excess demand problem. Other much less important instruments to control demand such as fiscal schemes to stimulate expenditure deferment were also used. Inflation after 1941 as measured by GDP's implicit deflator was, however, quite high, between 15–20 percent annually.

Given the constraints on to the adoption of a more conservative fiscal stance it is difficult to see an alternative to inflationary adjustment. An exchange rate revaluation would not have its peacetime consequence of increasing imports, as these were supply-constrained. On the other hand, the acceleration of inflation resulted in an increasing erosion of profit margins of exporters and a revaluation would further decrease their profits. It was impossible to increase export prices in foreign currency, given the widespread use of official procurement prices. Official purchases were a high proportion of Brazil's total exports. Credit expanded at 20 percent yearly after 1942 and lax monetary policies sanctioned the macroeconomic structural imbalances. A monetary 'reform' in 1942 did little besides changing the name of the national currency from mil-réis to cruzeiro. A regulation partly tying domestic monetary expansion to gold reserves meant, given the fast accumulation of gold reserves thereafter, that there were no effective legal limits for monetary expansion.

The accumulation of foreign reserves led to the negotiation of a permanent foreign debt settlement in 1943 which marked the final adjustment in a long cycle of foreign indebtedness that had started in the early 1820s with the loans at the time of independence. Bondholders were offered two options. One option maintained the original bonds but with a substantial

reduction of contractual interest rates. The other option was based in the partial substitution of original bonds by new Federal 3.75 percent bonds. Original rates of interest varied between 4 percent and 8 percent. The residual unconverted bonds would be redeemed with a substantial discount – on average of 71 percent – in relation to nominal value. The principle that better secured loans carried better conditions, already established in the 1934 and 1940 temporary agreements, continued to apply but was somewhat watered down in response to pressure by the United States to improve the terms offered to dollar bonds. The agreement was equivalent to a reduction of 50 percent of the outstanding foreign debt of £220 million. There was bitter disappointment in London with the agreement, but much less so in the United States. British protests that their interests had been sacrificed ‘in the interests of Pan-Americanism’ were more a reflection of a lack of appreciation, in London, of the structural long-term fragility of the Brazilian balance of payments than a reasonable assessment of the terms of the permanent settlement.

The combined consequences of new and rather restrictive legislation on water and mining resources, as well as the newly promulgated constitution of the Estado Novo could have been very unfavourable foreign direct investment flows. That this was not so was due to the considerable distance in certain cases between potential policies implied by the new legislation and the much more flexible policies actually adopted. The water and mining codes, by restricting the entry of foreign firms, may have affected future flows of foreign investment. But the initial commitments to limit the role of foreign capital in banks, insurance and ‘essential industries’ were downgraded in practice. The ‘essential industries’ pledge was a dead letter. Government interference in the insurance sector was stepped up with the creation of an Instituto de Resseguros do Brasil with a government monopoly of reinsurance business as well as by imposing limitations to the right of establishment of new foreign insurers in the Brazilian market. Foreign banks which already operated in Brazil obtained waivers to continue operations in Brazil in spite of the 1937 Constitution. These waivers were distributed on a discretionary piecemeal basis. This new legislation, while partly superseded by a new Constitution in 1946, in fact, paved the way for the effective closing down of the Brazilian banking market to new entrants and also for constraints on the form of operation of the established foreign banks which would last until the late 1980s. The fast fall in importance of foreign banks, which had started well before the 1930s, continued in the 1930s and early 1940s as their share in total banking assets fell from

25.4 percent in 1929 to 17.8 percent in 1939 and 5.2 percent in 1945. The contraction in the 1930s is at least partly related to the decreased importance of trade and foreign payments in relation to GDP which affected foreign banks more significantly than Brazilian banks. The role of the Bank of Brazil was strengthened as the Federal government banker, the executive arm in the administration of exchange and import controls, and also as a lender to industry and agriculture through its newly created *Carteira de Crédito Agrícola e Industrial* [Agricultural and Industrial Credit Office]. This was especially true during the war as real loans per unit of GDP increased by 69 percent and the Bank of Brazil's share of total loans increased from 14.8 percent to 24.8 percent. The sharp fall in the importance of foreign banks during the war was partly due to the intervention on German and Italian banks after Brazil entered the War in 1942.

The total nominal amount of British and United States investment remained roughly constant between 1930 and the end of the War, but the United States share rose from one quarter to about one half the total of slightly more than US\$660 million. British direct investment continued to contract during the War as it had done in the 1930s. This was partly due to sales to other foreign investors, partly to modest purchases by the Brazilian government of assets of British railway companies. The stock of investment by U.S. firms, which had remained stable between 1940 and 1943, rose in the later period of the War, especially in the manufacturing sector.

After 1937 there was a wholesale creation or upgrading of many sectorial 'defence' institutes as well as the consolidation of already existing government normative institutions. New national institutes regulated the production and foreign trade of *hierba mate*, pine and salt. Less formalised structures were created to deal with fruits, fisheries and manioc. Institutes of a regional scope, such as the one regulating rice, were upgraded. Besides increasing very substantially the normative role of the State, policies in the early 1940s resulted, with some time lag, in the government becoming a significant producer of steel, iron ore and oil. Government involvement in the production of steel started with the creation of Companhia Siderúrgica Nacional to operate the Volta Redonda steel mill, which had been made possible by the window of opportunity in United States–Brazil relations in 1940. The Brazilian government had hoped that United States Steel, which had been involved in the mill's feasibility studies, would be interested in investing in Brazil. It was only after these hopes had been disappointed that the government decided to create a state enterprise to run the mill.

Companhia Vale do Rio Doce, an iron ore mining concern, which would become another important symbol of the successful involvement of government in the production of goods, was the direct result of British procurement policy which sought to make sure that alternative sources of low-phosphorous iron ore could be found. This opened the way, in 1942, for an agreement through which the British government settled the outstanding interests in the Itabira iron ore concession, which had been for many decades a bone of contention with the government of Minas Gerais, and the United States advanced a loan to upgrade the railway from Itabira to Vitória. The Brazilian government commitment to supply iron ore to Britain was unfulfilled during the war, but Vale do Rio Doce was to become a world leader in iron ore production after the 1970s. The idea of a government plan to play a key role as a producer of goods is not warranted by the history of the foundation of these major state enterprises in the early 1940s. The embryos of other, much less successful state enterprises, such as the Companhia Nacional de Álcalis and the Fábrica Nacional de Motores, were also established in the early 1940s.

Towards the end of the 1930s oil was discovered in Lobato, Bahia and a *Conselho Nacional do Petróleo* [National Oil Council] was created to regulate all aspects of the oil industry. Legislation passed in the 1930s stipulated that exploration concessions could only be given to Brazilian firms with Brazilian stockholders and that deposits of gas and oil were owned by the Federal government. The lack of imported coal due to shipping and supply constraints acted as a powerful stimulus to increase the production of domestic coal, especially in Santa Catarina and Rio Grande do Sul. Brazilian coal was, however, a poor substitute of imported coal given its high ash and sulfur content.

Following the coup of November 1937, under the Estado Novo, control of the states by the Federal government was considerably tightened. A *Departamento de Administração do Serviço Público* [Civil Service Administration Department] had total control not only of the process of modernisation of the Federal civil service, but also of the budgetary process at the Federal and state levels. After the coup, the Conselho Federal de Comércio Exterior was strengthened as the main decision-making forum as political pressures which could not be exerted in Congress started to find a way of expression through some of the counselors with sectoral specific interests. A *Conselho Técnico de Economia e Finanças* [Economic and Financial Technical Council] within the Ministry of Finance mainly took over issues related to finance and taxation. After Brazil entered the war a *Coordenação*

da Mobilização Econômica [Economic Mobilisation Coordination] was created to cope with the mobilisation of economic resources for the war effort. To a certain extent the consolidation of some of the 'defence' institutes was enhanced by the proliferation of quantitative controls during wartime.

A government-controlled social security system was established under the Estado Novo. It was based on a large number of *institutos de previdência*, which generally had started operations as private concerns before absorption in the public system. These *institutos* were initially cash-flush as contributions were collected and total payments were only slowly increasing. Most of the available resources were squandered in asset donations, especially through the financing of housing through contracts which were not inflation-proof. This source of rent-extraction, which was extremely regressive, became more evident with the substantial acceleration of inflation in the late war period and after the war. At the same time, new social legislation under the Estado Novo considerably extended the rights of workers. Minimum labour standards were set, and special legislation protected the rights of children, women and special groups of workers. Minimum wage legislation was introduced. In 1943 Brazilian labour legislation, much of it based on the Italian fascist model, was consolidated in a single Labour Code. An important part of the government's labour policies was a deep involvement in the strengthening of trade unions and the provision of welfare benefits to their members, that is to say, to unionised urban workers in the formal sector. Political control of trade unions by the Federal government played a major role in assuring support for the Vargas regime.

With the approach of the end of the War there was much debate about the nature of the policies which would best protect Brazilian national interests in peace time. By far the most important interchange was between Eugênio Gudin, a conservative engineer turned economist who worked for several British-controlled utilities, and Roberto Simonsen, a government contractor and representative of foreign banks in the 1920s who in the 1930s and 1940s became an industrialist and the most influential mouthpiece of industrial interests from São Paulo. Controversy centered on protection and the role of the State. Gudin contended that after the war good economic performance would depend both on reducing the interference of the State in the economy and on the opening up of the Brazilian market which was excessively protected against imports. Simonsen considered vital the role of the State as a promoter of economic development and also that domestic industry should have the benefit of a high tariff. Although Gudin was a clear winner from an intellectual point of view, because some of

his opponent's economic concepts were primitive, or plainly wrong, it was Simonsen's programme which contained the basic elements of postwar policies.

In the last years of the War U.S. policy towards Brazil became increasingly less generous, especially after the United States had been granted authorisation to build a string of war bases in Northeast Brazil so that air supply of North Africa became possible. Frictions started to appear between Brazil and the United States on coffee prices, which had been so generously supported by the United States before 1942, but had then been frozen. Since Brazilian costs of production increased with domestic inflation and the exchange rate was kept constant as the war went on the profit margins of coffee growers were severely reduced. The United States resisted to a price readjustment in U.S. dollars because this would have implications on their domestic price control. Only at the end of 1945 did the United States relent and allow a price increase compensated by a temporary subsidy. Similarly, for a long period the United States, because of supply and shipping scarcity, had condoned, and even promoted, a policy of import substitution in Brazil. But Brazil's introduction of import rationing in 1944 in an attempt to preserve exchange cover to purchase essential imports – as the supply of nonessential imports in the world markets tended to be normalised earlier than that of essential imports, such as capital goods and industrial inputs – was met by an outcry from the United States authorities who made it quite clear that they were prepared to claim that this was in breach of the Brazil–United States trade agreement of 1935. This led to a reversal of Brazilian policy on imports. In the political arena the United States ended its support for the Estado Novo dictatorship at the end of the War, encouraging the overthrow of Vargas by the military in October 1945 and the establishment of a limited form of democracy in Brazil.

The striking feature of the Brazilian economy during the period 1930–1945 was its ability to recover quite rapidly from the consequences of the 1928–1933 Depression. To the conventional expenditure-switching policies related to a massive devaluation of the mil-réis must be added the reinforcing effects of exchange and import controls. It was of crucial importance that there was a considerable existing industrial capacity already installed so that recovery could take place led by an extremely good industrial performance after 1932. The favourable consequences of the demand-switching policies were reinforced by the expansionary nature of fiscal policy, and particularly of coffee support policies.

But the important role of previously installed capacity in explaining the timing and strength of recovery underlines the limits of structural change which occurred in the 1930s. It was to the great extent the good performance of traditional wage goods sector which explained the growth performance in the period. This was still the case in the first half of the 1940s and it was only in peacetime that the structure of industrial production started to change significantly. Poor agricultural performance affected mainly the export sector, so it is not evident that there was any structural gap between the increase in food production and in population.

The structural characteristics of Brazilian trade, and more specifically the trade surplus with the United States, increased Brazil's bargaining power in the 1930s as, especially after the United States commitment to multilateralism after 1934, there was a marked unwillingness by the United States to use its commercial leverage to constrain Brazil to adopt specific policies which would favour United States interests. Brazil exploited this advantage in relation to many aspects of its policies. Perhaps the most important was the ambiguity of its stance on compensation trade with Germany. The expansion of bilateral trade had many concrete advantages for Brazil as exportable surpluses could be sold in exchange for scarce imports.

The concentration of trade with the United States during the war and the contraction of European trade, with the exception of exports to the United Kingdom, marked a totally new situation, if contrasted to the 1930s, and even more if contrasted to the 1920s. United States influence in post-war Brazil would be paramount as the European economies had lost most of their importance as markets for Brazilian exports, suppliers of Brazilian imports and source of capital. The selling out of British firms in Brazil which had started during the War accelerated after 1945.

There was much of a snowball effect in the position concerning Brazilian foreign debt contracted during the Old Republic. Full service payments had been made only in eight years of the whole 1898–1930 period, and Brazil had used to the full extent its access to foreign financial markets during the two borrowing 'windows of opportunity' in 1905–1912 and 1925–1928. It was an important achievement to reach a reasonably favourable permanent agreement with creditors in 1943, even if this was eased by the artificial accumulation of reserves which resulted from the constraints on imports during the Second World War. Some of the harmful consequences of pre-1930 excessive borrowing were of a long-term nature and affected policies in the 1930s and 1940s.

The 1930–1945 period recorded important innovations in the field of rent-seeking. In the recent past, under the Old Republic, this had been mainly related to the policies of coffee support which assured that economic agents involved in coffee production enjoyed a higher and more stable level of income than would have been the case if such policies had not been adopted. A high tariff wall also benefited domestic industry, but this particular rent-seeking mode was less harmful than would appear at first sight, as coffee producers could shift at least part of their input cost increases to coffee consumers abroad. With the involvement of the authorities in the purchase and distribution of scarce foreign exchange cover at prices lower than those that would have prevailed without government intervention, a new modality of rent appropriation was inaugurated, as there was a benefit for those who had access to relatively cheap foreign exchange. The government also learned very rapidly that it could use foreign exchange control as a disguised form of taxation. The economics of the foreign exchange wedge between export and import rates became a vital aspect of economic policy in Brazil at least until the mid-1960s.

The proliferation of normative sectoral agencies after the 1930s, many of them with ample regulatory mandate, created two important sources of inefficiency. The scope for the distribution of sinecures was considerably broadened by the increased role of the State. There were also new possibilities of rent-extraction, as sectoral rationing of output or foreign trade became the rule, and price market allocation was weakened. But it is important to stress that the basic stance of the Vargas regime on state involvement in the production of goods was more restrained than the mere increase in the number and size of new state enterprises would indicate. In many instances, the government opted for public ownership because there was no interest by the private sector. Criticism of the inefficiencies of state ownership should not obscure the fact that in some cases, especially before 1945, there was no alternative to public ownership.

Macroeconomic policy deteriorated considerably in the last years of the War, after being under reasonable control for most of Vargas's first period. This was to a certain extent unavoidable, given the policy constraints under which the government operated. Nevertheless, postwar democratic governments inherited imbalances that proved particularly harmful. First, and foremost, a high rate of inflation. This meant that a new instrument had appeared in the rent-seeking game after a long period of relatively low inflation since the 1890s. In an internal market for government loans effectively regulated by the usury law, which limited the nominal interest rate to

12 percent, it was very attractive to enter into long-term financial obligations. Access to inherently subsidised credit came to compete with other more established rent-extracting modalities. The second element of this unfortunate macroeconomic inheritance was a grotesquely overvalued exchange rate: to put it back at the 1939 real level in relation to the U.S. dollar would have required a devaluation in 1945 (domestic/foreign currency) of more than 60 percent. In the postwar period even a government with stabilisation very high on its list of priorities would be reluctant to face the need both to redress the serious imbalance in public accounts and to correct a major exchange rate misalignment.

THE BRAZILIAN ECONOMY, 1945–1964

Removing Infrastructure Bottlenecks, 1946–1955

The 1928–1933 Depression followed by the Second World War placed the Brazilian economy under severe and continuous constraints. Industrial capacity and the infrastructure were under strain, as difficulties were faced in relation to the access to resources to finance the maintenance of existing capacity and capital goods imports. This was due at first to balance of payments restrictions, then, during the war, to supply and transportation constraints. There was a dearth of capital goods after many lean years. There was also a clear expectation that U.S. financial support would be forthcoming as Brazil had provided the United States with air bases in Brazil which had been a vital link to supply Africa and Brazilian troops had fought in Italy.

The deposition of Getúlio Vargas by the military and the ‘democratisation’ of Brazil at the end of the War led to presidential elections in December 1945 and the victory of General Eurico Dutra, Vargas’s pro-German Minister of War (1936–1945). In the economic field there was less continuity with the Estado Novo as a group of liberally inclined civil servants occupied key positions in the federal government. The emphasis of the new administration’s unwritten economic programme was placed on the need to invest in infrastructure with the help of the United States and to control inflation, which had accelerated significantly since 1942. The most influential explanation for the acceleration of inflation was advanced by Eugênio Gudín, the doyen of the critics of Vargas’s economic policies. He singled out public finance imbalance and constraints on imports as the most important factors explaining the high rate of inflation. But Gudín

also believed, and this 'structural' explanation was certainly overemphasised at the time, that an important source of inflationary pressure was the imbalance between investments in the expansion of productive capacity of capital goods and those directed to the production of wage goods. This criticism of Vargas's industrial policies, and especially of the Volta Redonda project, was quickly endorsed by the new government but does not seem to fit well with the data available on industrial structural trends. Although the composition of investment may have had a marginal impact on the inflation rate, its acceleration seems to be closely related to the government's inability to mop up demand through a combination of rationing and the sale of government bonds. With the new government, the embryo of a central bank was created in the form of a *Superintendência da Moeda e do Crédito*-SUMOC [Superintendency of Money and Credit] linked to the Bank of Brazil.

The postwar emphasis on stabilisation led the government to fall into the trap of overvaluation. The exchange rate, which should have been devalued from an average of around Cr\$18.50/US\$ to some Cr\$30/US\$ if the objective was to maintain the 1939 real exchange rate level, was maintained at roughly the same nominal level when legal parity was declared to the International Monetary Fund. There are indications that this decision reflected an unwarranted optimism amongst liberal economists, and made explicit by Gudin, about favourable structural changes which had affected the Brazilian balance of payments. So for about a year and a half, a highly overvalued rate was adopted and the Brazilian exchange regime was liberalised with the removal of controls.

Imports increased 84 percent in 1946 and then again more than 72 percent in 1947 to reach US\$1,012 million. Import prices increased more than 32 percent in the period. Although the level of foreign exchange and gold reserves had increased to reach US\$730 million by the end of 1946 about 37 percent of the total reserves were inconvertible, of which US\$240 million in sterling. Brazil's trade with the dollar area was heavily in deficit so that the small dollar reserves were rapidly eroded. In 1947 the share of U.S. goods in total imports reached 61.3 percent, its peak level in the 1940s. By mid-1947 dollar reserves had disappeared, but gold reserves were still substantial, so that the government faced the choice of devaluing the cruzeiro or maintaining an overvalued rate with the introduction of import and foreign exchange controls. With an eye in the stabilisation targets this latter course was adopted and from mid-1947 Brazil's foreign exchange regime was similar to the former regimes of 1931–1933 and 1937–1939 with

the same political economy implications. It is frequently overlooked that it was part of government policy to maintain untouched the level of gold reserves at US\$342 million, equivalent to four months of imports at the 1947 level. However reluctantly, Brazil had finally entered the age of dollar shortage.

It is part of ill-informed, nearly unanimous historical judgement that the Dutra administration irresponsibly squandered Brazil's foreign reserves. Curiously enough these claims are rarely accompanied by any condemnation of foreign exchange overvaluation and no mention is made of the substantial size of gold reserves after 1947. A closer look at the figures also points out to the fact that there was not such a drastic change in the structure of imports in 1946 if compared to the past, especially if pent-up demand is duly taken into account: the share of imports of consumer goods in total imports rose from 16.9 percent in 1938 to 21.7 percent in 1946. However, to Brazilians used to extreme scarcity of foreign exchange since the early 1930s, the much higher level of imports after 1945 and the availability of foreign consumer goods seemed somehow objectionable. It is indeed difficult to overestimate the strength of the anti-import sentiment fostered by foreign exchange scarcity years after 1930. It is thus full of irony that the re-adoption of import substitution policies was a direct result of the crucial position of stabilisation in the priorities of 'liberal' policy-makers in the immediate postwar period. Import controls stimulated the import substitution of nonessential products, since the main rationing criterion was to favour essential imports so that imports of luxury goods tended to be relatively more affected than imports of capital goods or inputs. The share of consumer goods imports was reduced and the share corresponding to capital goods increased. Until 1950 after the introduction of import controls there was a modest reduction of total imports not exceeding 10 percent. More importantly, there was a sharp substitution of imports originating in the dollar area by imports from nondollar areas so that the deficit in the balance of payments with the dollar area was reversed. The fall of almost 12 percent in the price of imports also helped the government to regain control of the external accounts.

There is no study on the extent to which access to cheap imports enhanced the profits of importers of domestic manufacturers or resulted in lower prices to consumers. The relative prices of agricultural and industrial goods increased rapidly by more than 40 percent between 1945 and 1948 and then hovered around the same level until the early 1960s. It is likely that more market power in certain branches of industry ended up by being

reflected in the rise of relative prices of such goods in relation to those produced in more competitive sectors which were forced to transfer lower input costs to consumers.

Since the nominal level of the exchange rate remained constant from 1939 to 1952, inflation tended to erode the profit margins of exporters when export prices did not rise sharply as was the case of coffee. The long cycle which affected coffee prices was on an upswing after 1947, as world demand recovered and supply was constrained. Average coffee prices (Santos 4) increased from 22.6 U.S. cents in 1948 to 27.4 cents in 1949 and to 49.5 cents in 1950. It then remained between 49.5 and 53.8 cents in 1951–1953, before reaching 78.8 cents in 1954. The share of coffee exports in total exports, which had reached one-third in 1940–1945, rose rapidly to reach more than 70 percent in 1952–1953. What had been considered export diversification had been indeed mostly a change in the relative prices between coffee and Brazilian exports of other products. Once coffee prices recovered, dependence on coffee exports was again evident. Since the United States was the main coffee market for Brazil, the U.S. market absorbed a growing share of Brazilian total exports: in 1950 this reached 54.3 percent, only lower than that of 1941, when almost all other leading traditional markets were closed to Brazilian exports.

Brazilian foreign exchange policy based on overvaluation contributed to strengthen coffee prices at least in the short term. Exports of products included in official procurement programmes during the war, such as quartz, castor beans, diamonds, carnauba wax and processed beef collapsed after 1945. The same happened to exports which had benefitted from the interruption of exports by traditional suppliers, as cotton textiles and rubber products. In contrast with the decline in such nontraditional exports which was due to sudden changes in world demand, commodity exports other than coffee suffered with overvaluation. Such exports, of which cotton is the best example towards the end of the 1940s, became 'gravosas', that is production costs exceeded possible revenue levels given world commodity prices and the fixed exchange rate. The government had to resort to earmarked 'operations' [*operações vinculadas*] to ease pressure from producers, especially those of cotton. Through these expedients the government would serve as a broker between those exporters seeking better terms for their exports and importers who were prepared to pay more per unit of foreign currency to import goods that were not considered to be essential by the import control authorities. Although the macroeconomic relevance of the scale of corruption in the allocation of foreign exchange

cover tends to be exaggerated by some analysts it is obvious that government by rationing through import controls and brokering in earmarked 'operations' created opportunities for corrupt practices.

Criticisms of the unfavourable effects of the overvalued exchange rate on exports need to be put into perspective. In many European markets for some time after the war export sales did not necessarily contribute to increase the capacity to import as currencies were inconvertible and exports were in many cases constrained by stiff export controls. Perhaps the best example of such asymmetries is the accumulation of sterling balances in Britain. From the end of the war in Europe to the beginning of 1947 Brazil continued to supply Britain under the terms of the Anglo-Brazilian payments agreement of 1940 and sterling accumulated in blocked special accounts in London. Sterling balances increased from £40 million in V-E Day, to about £65 million by mid-1947. João Neves da Fontoura, the Minister for Foreign Affairs, made a visit to Britain in 1946 to seek British permission to use and misleadingly reported that the British were likely to agree that the balances would be used to buy ships and other capital goods for which there was pent-up demand in Brazil. It was a corollary of the 1945 agreement between Britain and the United States on British postwar finance that Britain refused to pay these debts out of current scarce export capacity. In spite of much British pressure Brazil refused to scale down its balances. As a preliminary to the failed British return to convertibility in mid-1947 the sterling balance holders were told that preconvertibility balances would be frozen and unconvertible, and only thawed in exchange for a comprehensive programme of sale of British assets involving mainly the railways. This took a long time and in fact there was some release of blocked sterling as an inducement for certain railway purchases the most important of which were those of the very efficient San Paolo Railway and the rather inefficient Leopoldina. The remaining balances were used in a sudden redemption of Brazilian foreign debt in 1950 during a scare about a possible unilateral scale down of balances by Britain.

Although British direct investment was reduced by at least US\$165 million between 1938 and 1950, there was a rapid expansion of United States investment, which increased from US\$323 million in 1946 to US\$644 million in 1950 (US\$284 million in manufacturing industry, US\$112 million in oil distribution, US\$138 million in utilities and US\$110 million in other sectors). Although investments in utilities were practically stagnant, other investments had increased more than 2.5-fold in these four years. Comparison with balance of payments data suggest that more than US\$200 million

of the increase in 1946–1950 corresponded to new capital and the rest to reinvestment. Data on foreign investment other than British or from the United States for the 1940s are notoriously defective and the semiofficial estimates for direct investment in consequence somewhat inflated: it is hard to believe that in 1945 these investments made up half of the stock of foreign capital.

The overvalued exchange rate resulted in a disincentive to new direct foreign investment as purchases of domestic goods and services would be relatively more expensive. There was also an inducement to maximise profit remittances. But the handicaps seem to have been compensated by potentially significant rent-seeking extraction in relation to both the access to rationed imports of capital goods and inputs and the exertion of market power in a market where protection against imports was made absolute by the prohibitions enacted by exchange control authorities.

Inflationary pressures were enhanced in 1946 by the significant impact of a pay raise to civil servants agreed to by Gastão Vidigal, Dutra's first Minister of Finance. This, together with the impact of a significant rise in import prices, resulted in inflation measured by the cost of living in 1946 remaining above 16 percent, at the same level as in 1945. With Pedro Correa e Castro as a new Minister of Finance in late 1946, stabilisation returned to the top of the priority list and public expenditure was tightly controlled so that, for the first time since the Old Republic, there was a small fiscal surplus at the Federal level in 1947. In contrast, the deficit at the state level, especially in São Paulo and the Federal District, was very substantial, corresponding to 10–15 percent of their expenditures. This proved to be impossible to control, in spite of some progress in 1948, and did not fall below 4.5 percent of total expenditure. Banking credit, which had been reduced by 10 percent in 1946, remained roughly constant in the years 1947–1949. Inflation measured by the GDP deflator started to decrease in 1947 but the consumer price yearly rate (Rio de Janeiro) peaked at 21.9 percent in 1947, as there was a sharp fall in agricultural output, before falling to 3–4 percent yearly in the 1948–1949 period.

Following the political cycle which would doom many future stabilisation efforts, the emphasis of government policy on stabilisation lost all appeal as the presidential and Congressional elections of October 1950 became closer. By mid-1949 Pedro Correa e Castro was substituted as Minister of Finance by Guilherme da Silveira, a textile industrialist who favoured easy credit and fiscal policies. Increased public expenditure both by the Federal government and by the states in the years 1949–1950 reflected

such a shift in policy. By 1950, the Federal deficit had reached almost 20 percent of the expenditures and was about twice the size of the aggregate deficit at state level. Lobbies in favour of looser policies were extremely powerful, including those seeking credit from the Bank of Brazil to profit from the industrial boom and populist politicians seeking to build up their political fiefs in the rapidly expanding urban areas. In 1950, real credit increased in real terms by more than 20 percent, only then exceeding its 1945 level. Thus in the 1945–1950 period real credit per unit of GDP was reduced by 25 percent in spite of the reversal of policy in the last eighteen months of Dutra's government. Difficulties were compounded by the bad crop of 1950, so that inflation measured by consumer prices in Rio de Janeiro started to accelerate again in 1950 reaching more than 9 percent.

Perhaps the most important failure of the Dutra administration was its inability to engage in a significant effort to overhaul the ailing existing infrastructure and expand capacity. Many Brazilian ships had been sunk during the war. Foreign exchange scarcity and supply constraints as well as low profits by utilities in 1930s and early 1940s, not only made new investment impossible, but also explained the deterioration of existing capacity in railways, electricity, telephones and railroads, owned either by the government or foreign concerns. Brazil had hoped that good behaviour during the war was going to be repaid with economic aid. But by 1946 it had already become clear that Brazil could not count on any special help from the United States. It was explicit U.S. policy that the inflow of capital into Brazil should basically depend on Brazil's capacity to attract private direct investment rather than on direct involvement by the U.S. government. Limited finance was extended through some Export and Import Bank loans mainly to state enterprises to buy ships and also railway and electric equipment. The International Bank for Reconstruction extended a substantial loan to the Canadian-owned Brazilian Traction group which supplied electricity to Rio de Janeiro and São Paulo. Approved loans to Brazil added up to 11 percent of total International Bank loans in the 1947–1950 period. But there was no Brazilian version of a Marshall Plan as expected by the government.

Efforts by the Brazilian government to plan the modernisation of infrastructure were embodied in the SALTE plan of 1948, whose name derived from the initials of the sectoral targets considered to be most important: *saúde* (health), *alimentação* (food), *transporte* (transportation) and *energia* (energy). *Salte* also means an imperative 'jump' in Portuguese. It is not unreasonable to think that the first two 'sectors' were included due to a

mixture of political convenience, as the social aspect had to be addressed, with the need for particular letters to give to the plan what was considered to be an attractive name that could mobilise political support for the government's programme of infrastructure investment. There were no comparable policies proposed for health and food supply. But the government's efforts were to be of no avail. A crucial weakness of the Dutra government, to some extent shared by its successors, was its inability to assure adequate political support in Congress. The SALTE plan was only approved by Congress in the last year of Dutra's term of office, only to be abandoned by the new administration in 1951.

Political obstacles also made it impossible to approve new tax legislation proposed by the government, so that adjustment had to rely relatively more on expenditure control than would have been the case if the tax reform had been approved. Federal revenue depended essentially on consumption and income taxes as import duties continued to lose importance due to the impact of inflation on the specific tariff. By 1950 the share of the consumption tax in total revenue was 34.4 percent, but the share of income tax was rapidly approaching it, to reach 30 percent.

Direct U.S. government co-operation in solving the problem of how to finance economic development projects in Brazil was restricted to the efforts of a *Comissão Técnica Mista Brasil–Estados Unidos* [Joint Brazil–United States Technical Commission], generally known as the Abbink mission, in 1948. Its report was marked by a deep pessimism about the prospects of Brazilian export prices which proved to be entirely misplaced at least in the mid-term. The emphasis was on the need to attract foreign capital and to assure that domestic savings were directed away from overinvestment in real estate. A few days before the Abbink report was presented, Brazilian hopes had been raised by the reorientation in United States policy entailed by point IV of President Harry Truman's inauguration speech which emphasised the importance of making U.S. technical knowledge available to developing economies. There was finally hope of U.S. government involvement in the long list of delayed infrastructural projects in Brazil. A *Comissão Mista Brasil–Estados Unidos para o Desenvolvimento Econômico* [Joint Brazil–United States Economic Development Commission] was formed in the end of 1950 with the task of defining projects which could be submitted either to the Export and Import Bank or to the International Bank for Reconstruction and Development.

Although the institution-creating exuberance of the Estado Novo was brought under relative control, some new agencies were created and

government involvement was increased in several sectors. In an indirect recognition of the difficulties related to the operation of foreign-owned electricity suppliers, the Federal government decided to get involved in the production of hydroelectricity in the Northeast with the project of Paulo Afonso after the creation of *Companhia Hidroelétrica do São Francisco (CHESF)* [São Francisco Hydroelectric Company] in the last days of the Vargas government in 1945. The other important decision concerning energy matters taken by the Dutra administration was related to oil refining. The debate on public ownership of the different segments of the oil industry had become increasingly partisan after oil had been found by the government in 1939. Pressure by the big international oil companies for a share of the Brazilian prospective oil production and refining had been mounting. The government allowed a couple of small projects owned by Brazilian firms to go ahead although no overall decision was reached on the role of the government and private capital in all segments of the oil industry.

The importance of regional imbalances was recognised by the creation of the first regional development agencies, the *Comissão do Vale do São Francisco* [São Francisco Valley Commission] in 1948 which was to be followed in 1953 by the *Superintendência do Plano de Valorização Econômica da Amazônia* [Superintendency of the Plan for the Economic Valorisation of the Amazon Region]. A *Conselho Nacional de Pesquisas* [National Research Council] was created by Dutra in the closing month of his term of office. Its inspiration was centred more on the wish of the military to foster Brazil's knowledge of the possibilities opened by nuclear power than on a diagnosis that research would have to play a significantly more important role as a stimulus to economic development than in the past.

In 1950 Getúlio Vargas came out of his self-imposed exile – in spite of having been elected to the Senate in 1945, he rarely left Rio Grande do Sul – to win the October 1950 elections and resume the presidency in January 1951. His hidden economic agenda before taking office was a combination of policies first in the style of Campos Salles, and then of Rodrigues Alves, both former-presidents of the First Republic. In Brazilian political folklore, Campos Salles (1898–1902) had given political backing to Joaquim Murtinho to put the Republican finances in order after the turmoil in the 1890s and Rodrigues Alves (1902–1906) had undertaken a vast post-stabilisation programme of public works. In fact he also placed stabilisation at the top of his list of priorities. But already in the selection of his economic team Vargas was clearly unable to choose stabilisation as the initial main

objective. The rather orthodox policies adopted by Horácio Lafer in the Ministry of Finance, which generated Federal budget surpluses 0.9 percent and 0.6 percent of the GDP in 1951 and 1952, have to be contrasted by the extremely expansionary credit policies adopted by Ricardo Jafet at the Bank of Brazil. The potential for friction between the Ministry of Finance and the Bank of Brazil would be a recurrent theme in the history of failed stabilisation attempts during the Third Republic (1945–1964). Jafet had been the man in charge of the financing of Vargas's election and was not known for his enthusiasm for orthodox economic policies: Bank of Brazil credit to the private sector in nominal terms increased 66 percent in 1951 and 40 percent in 1952 while total banking credit in real terms increased by 13.7 percent and 8.7 percent in those years. Other developments put the government under pressure. The 1951 crop for domestic consumption was a not a success. Import prices in U.S. dollars increased almost 30 percent in 1951 and 8 percent more in 1952. The lack of Federal control on overspending by the state of São Paulo continued to be another major obstacle to the implementation of a coherent stabilisation programme. Between 1951 and 1952 the deficit by States and municipalities increased from 0.5 percent to 1.5 percent of GDP. The cost of living rate rose 17.3 percent. The high rate of increase in agricultural output in 1952 was mainly due to an important increase in cotton production. Inflation measured by the GDP deflator remained relatively low in spite of a still worse crop for domestic consumption. In 1953, pressures on the exchange rate, which eventually led to an overhaul of the regime adopted since 1947, resulted in spite of a recovery in food production in the acceleration of inflation with cost of living yearly increases in 1953–1956 varying roughly between 14 percent and 23 percent.

The institutional arrangement between SUMOC, the Treasury, and the Bank of Brazil acting as a central bank was rather peculiar and was repeatedly used to ensure that there was no restriction to the growth of operations by the Bank of Brazil. SUMOC fixed the rediscount rate and the rates of compulsory deposit of commercial banks besides other functions related to the foreign exchange policy, the registration of foreign investment and the supervision of the banking system operations. It had a council which acted as the normative body in matters related to money, credit and foreign exchange. The Bank of Brazil operated the *Carteira de Redescontos* (CARED) [Rediscount Office] and the *Caixa de Mobilização Bancária* (CAMOB) [Banking Mobilisation Office] so as to provide liquidity or to act as a lender-of-last-resort. The Treasury had the legal authorisation to

issue money and amortise it through a *Caixa de Amortização* [Amortisation Office]. But it could not put it in circulation as this was an attribution of *CARED*. When in need of cash the Bank of Brazil would rediscount commercial papers with *CARED* which would require a loan from the Treasury. When the commercial papers matured the Bank would return the cash to *CARED* which would be return it to the Treasury for incineration by the Caixa de Amortização. There had been since 1942 a theoretical limitation of short-term indebtedness of *CARED* with the Treasury which could not exceed 25 percent of foreign reserves. But it was not binding as a long-term limitation as each time *CARED* exceeded the limit there a law was passed by Congress which determined that money in circulation should be 'taken over' by the Treasury with all debits of *CARED*, Bank of Brazil and the Treasury being cancelled out. A second, carefully preserved, loophole in the relation of the Bank of Brazil with the monetary authorities before 1964 was that as a commercial bank it also held the compulsory deposits of the other commercial banks with the monetary authorities. Because the Bank of Brazil made no distinction between its functions as a central bank and as a commercial bank, part of the banking system reserves served as a basis for its own increased loans and advances.

Once again priority of the stabilisation policy would be the main explanation for decisions which crucially affected the country's balance of payments. From 1951, the first year of Vargas's government, it was decided that an increased supply of imports was a required ingredient for a successful stabilisation programme. This resulted in a significant liberalisation of import controls, with a big increase in the import licenses issued. It was this change of policy, rather than the Korean boom, that was at the root of the foreign exchange crisis which marked the early 1950s. With the nominal exchange rate still at the 1946 level, imports of around US\$1,700 million in 1951–1952 were more than 80 percent higher than in 1950, a substantial rise even if prices had increased 40 percent. The U.S. share of the Brazilian market, which had been steadily declining, recovered to levels above 40 percent in the early 1950s. Exports continued to increase in 1951 as coffee prices increased: they were 30 percent higher than in 1950, reaching US\$1,771 million, but fell to barely more than US\$1.4 billion in 1952. The traditional trade surplus almost disappeared in 1951 and was transformed into a trade deficit of almost US\$300 million in 1952. Such an import boom led to the accumulation of commercial arrears of US\$541 million at the end of 1952, with the Federal government still reluctant to use gold reserves to pay for imports. The position was made even more serious due to the time

lag between the issue of licenses and actual imports as it became clear that there had been an overshooting and too many licenses had been issued.

The Brazilian government sought financial accommodation in the United States to finance the thawing of these commercial arrears. The timing was unfortunate as the Republican victory in November 1952 had resulted in the weakening of the position of Eximbank in its fight with the World Bank for the Brazilian turf. In a speech in the end of 1951, Vargas had sharply criticised the practice of allowing the registration of remitted profits by foreign corporations as foreign reinvestment which could be used as an additional basis to remit future profits. This declaration, courting the nationalists, is seen by some as a typical ruse by Vargas, trying to use his future return to good behaviour as a negotiating chip in the negotiations to extract a loan from the United States. It naturally raised strong protests abroad, including from the World Bank which had been trying since the end of the 1940s to avoid the erosion of its leverage in Brazil by restricting Eximbank activities to short or mid-term loans. The temporary rise in World Bank influence meant that Brazil, after adjustments in its foreign exchange regime, was able to obtain a US\$300 million loan from Eximbank to be repaid in three years and with no grace period. With the Republican victory there was also a reversal of U.S. policy on project finance in developing countries with the abandonment of Trumans's Point IV policy. It became clear that no additional U.S. official finance would be available for projects selected by the Comissão Mista Brasil–Estados Unidos. The commercial arrears bailout in any case made it unlikely that the United States would enter into additional financial commitments in Brazil. Total U.S. loans for approved CMBEU projects only amounted to US\$186 million. The comprehensive overhaul of the infrastructure would have to be once again postponed. Brazil's total foreign debt which had been slowly reduced from US\$698 million by the end of 1945 to US\$559 million by the end of 1950 rose to US\$1,317 million by the end of 1954. But the debt-export ratio was still very low: it reached a minimum of 0.32 by the end of 1951 and increased to 0.85 by the end of 1954.

The deterioration in the external accounts led to a reform of the exchange regime in early 1953 (Law 1807). This partially met the sharp criticisms of the old policy raised in the United States. The new foreign exchange regime was a next of kin of that of 1935–1937. Two exchange rates were pegged by the government: the more devalued 'free' rate and the 'official' rate. Exporters of coffee, cotton and cocoa would be paid the official rate. Other exporters, at the discretion of the authorities, would sell compulsorily

15 percent, 30 percent or 50 percent of export proceeds at the official rate. Almost all financial transactions used the free rate as well all nonessential imports which amounted to about a third of total imports. Other purchases of foreign exchange were to be made at the official rate. The registration of unremitted profits as reinvestment was duly allowed.

Ricardo Jafet, who not only had undermined the stabilisation effort by adopting expansionary credit policies in the Bank of Brazil, but had also supported Getúlio Vargas's unfortunate initial line on reinvestment of foreign capital, was sacked from the Bank of Brazil in the beginning of 1953 in the wake of scandals involving the '*operações vinculadas*'. These were specific deals at discretionary exchange rates more devalued than the official rate with the intermediation of the authorities. This involved, as sellers of foreign exchange, those exporters whose production costs were not covered by export revenues at the official exchange rate and, as buyers of foreign exchange, importers whose imports at the official rate were not approved by foreign exchange control authorities. Jafet's removal came too late from the point of view of stabilisation and it seemed doomed even before the impact of devaluation. Exports had not reacted to incentives provided in the new foreign exchange regime. In the first half of 1953 there were indications of lack of control with increased expenditure to cope with the effects of the dry season in the Northeast, to bail out state banks, to pay a civil service wage increase and to proceed with the public works programme. Vargas faced political defeat in the city of São Paulo elections and political agitation there led to a massive strike in March. In mid-1953, Lafer was substituted by Oswaldo Aranha as Minister of Finance. The new minister proceeded to change once again the foreign exchange regime. New rules allowed the sale in the free market of 50 percent of the proceeds of all exports with the exception of coffee. Minimum export prices were established and export proceeds beyond these thresholds could be entirely sold in the free market. But, in spite of lip-service concerning the control of the public deficit, the government continued without instruments to raise additional resources and without clout or willingness to cut expenditures.

The more permanent reform of the exchange regime tried to remove at the same time the constraints imposed by the balance of payments and by public finance. *Instrução* 70 of SUMOC of October 1953 introduced a system of *ágios e bonificações*, taking as reference the official rate of Cr\$ 18.32/US\$ declared to the International Monetary Fund. Coffee exports would receive an extra payment, a *bonificação* of Cr\$ 5/US\$; noncoffee exports would receive Cr\$10/\$US\$. A new paper, *promessa de*

venda de câmbio [promise to sell foreign exchange], was created. These were to be auctioned and gave the right to the purchaser to buy foreign exchange. There were five different categories of auctions for imports, classified according to 'essentiality'. The authorities distributed discretionarily foreign exchange between different import category auctions. About 80 percent of total allocated exchange was reserved to categories I–III and only 3 percent to Category V of luxury goods. Certain special imports such as newsprint and wheat paid only the official rate. Oil imports as well government or state enterprise imports paid surtax on the official rate. The result was that on average, for instance in 1953, the cost of imports per unit of foreign exchange varied between Cr\$ 18.82 and Cr\$ 78.90. The Category V rate was 2.5 times the Category I rate. The system acted as a substitute for tariffs as the Brazilian specific tariff schedule had been badly eroded by inflation. A 'free' rate applied to financial transactions.

The government could use the wedge between the average import exchange rate and the average export rate as a fiscal instrument. But this was too little to cope with increased expenditure, especially transfers to the state of São Paulo. The deficit of states and municipalities fell only very slowly after 1953. In spite of Jafet's replacement in the Bank of Brazil, loans by the bank increased 36 percent in 1953. In 1953, the income tax had become the main Federal tax (32.6 percent of total revenue), marginally more important than the consumption tax (30.2 percent). By the end of 1953, all the fundamentals concerning fiscal, monetary, and credit policies pointed to the failure of stabilisation efforts. To this must be added the inflationary consequences of the rise in import prices caused by *Instrução* 70 which were in addition to those related to Law 1807. Inflation rates in 1954 were above 20 percent measured by the cost of living index.

Exports recovered very modestly in 1953 and 1954 in answer to changes in foreign exchange policy. They reached a peak of US\$1,771 million in 1951 and then fell to around US\$1.4–1.5 billion until 1957. There was a very substantial additional increase in coffee prices from a level of around 55–56 U.S. cents per pound in the first semester of 1953 to 62 cents in the end of the year, rising to almost US\$1.00 in June 1954. This was due to a frost in Paraná and difficulties in competitive suppliers. A political campaign in the United States led to a contraction in consumption while the Brazilian government established minimum export prices. In the final months of Vargas's government coffee export volumes were very low. In the middle of August, the government finally decided to improve the conditions applying to the purchase of coffee export proceeds by allowing 20 percent of these

proceeds to be sold at the much more devalued ‘free’ rate. Prices eased, and there was some recovery in export volumes, but they remained much below normal levels. The value of imports fell in 1953 to US\$1.1 billion, recovered in 1954 to US\$1.4 billion, but this was the only year in the 1953–1964 period when it was not roughly between US\$1.1 and US\$1.3 billion. There was, however, a fall in import prices 1953–1954 of about 10 percent and a further fall of almost 15 percent until 1960. The decline in the U.S. position as a major supplier to Brazil continued but it was still the major supplier in mid-1950s, holding around a third of the market. The bad performance of exports is the main explanation for the permanent constraint on imports which would be one the most import obstacles faced by policy-makers in Brazil during the 1950s.

In 1952 the nominal minimum wage, which after eight years without adjustment was less than 40 percent its real level of the beginning of 1944 (wages and cost of living index, Rio de Janeiro), had been increased by 216 percent. At the beginning of 1954, with inflation since the beginning of 1952 around 50 percent, a further 100 percent nominal increase was proposed by João Goulart, Vargas’s Minister of Labour. The proposal was adopted by the President, in spite of strong opposition from Aranha. Typically, Vargas fired Goulart as a sacrifice to his critics, but kept his policies. The resulting real minimum wage was now more than 77 percent above its real level of 1944. This added significantly to the inflationary pressures from other sources.

There was a new wave of creation of governmental, or government-controlled, institutions during Vargas’s second government of which, retrospectively, the most important were *Banco Nacional do Desenvolvimento Econômico* (BNDE) [National Economic Development Bank] and *Petróleo Brasileiro-Petrobrás* [Brazilian Oil]. *BNDE* was created in 1952 as a financial counterpart to the Comissão Mista Brasil-Estados Unidos. It was thus at the origin essentially a public-owned bank concerned with infrastructure projects. Later in the 1950s it became an important source of finance for projects which aimed at the import substitution of basic inputs. In 1953 Petrobras was vested with a far-reaching government monopoly which covered all aspects of oil production and processing. Only in distribution activities there was scope for the continued operation of the big foreign firms. Debate on the nature of government intervention in the oil industry was marked by strong political mobilisation, particularly in the armed forces, which were split by the issue. Although victory of the ‘*o petróleo é nosso*’ [oil is ours] campaign has become emblematic of a

strategy based on state-controlled institution, strangely enough, the comprehensive monopoly approved by Congress was a result of an initiative by the opposition to the government. Legislation initially proposed by the government provided for a less comprehensive span of monopoly activities. Taken jointly with the evidence on the establishment of Companhia Siderúrgica Nacional and Companhia Vale do Rio Doce in the early 1940s the circumstances surrounding the foundation of *Petrobras* suggest a much less comprehensive effort by Vargas to build up public ownership in strategic sectors than is frequently taken for granted. The Federal government's institution building included the establishment of a *Fundo Federal de Eletrificação* [Federal Electrification Fund] and the creation of the embryo of a holding to control federal-owned electricity companies, *Centrais Elétricas Brasileiras-Eletrobrás* [Brazilian Electric Power Stations], which would be activated after 1961 when it would have control over the big Federal-owned electricity generation companies, of which only *CHESF*, the Rio São Francisco hydroelectric company, was operating in the early 1950s. The government also established a *Comissão Executiva do Plano do Carvão Nacional* [Executive Commission of the National Coal Plan] to cope with the problems raised by the absorption of low-quality coal produced in the South mainly through the construction of coal-burning thermoelectrical plants.

Vargas's suicide in August 1954 and his replacement by the centre-right vice-president, João Café Filho, created the conditions for a return of the 1945 'liberals' to economic policy-making. But the political conditions required for a serious attempt at stabilisation did not exist as Eugênio Gudin, the new Minister of Finance, and leading conservative economist, would discover after only seven months in office. Interest rates were increased and credit was squeezed by a steep increase in the compulsory deposits of banks in *SUMOC*. In 1954–1955 real banking credit remained 7–8 percent below its recent peak in 1952–1953. Budget expenditures were to be cut by 36 percent. Gudin's position was undermined by his difficulties to obtain political backing for expenditure cuts and also by *paulista* objections to the low level of the export bonus (*bonificação*) paid to coffee growers which were only slightly higher than that under the exchange regime inherited from Aranha.

It was possible, however, to renegotiate a big loan with private banks in the United States to extend the maturing repayment period of credits for commercial arrears which had been obtained under Vargas. This operation was guaranteed by US\$300 million of reserves in gold, reversing a policy

which had been adopted since 1947 on the role of gold reserves. In relation to still another aspect of foreign economic policy, Gudin was unwittingly responsible for an economic policy instrument which would be of vital importance for the rest of the 1950s as an incentive to foreign capital inflows and the deepening of import substitution to reach more sophisticated branches of industry, in particular transportation equipment. This was SUMOC's *Instrução 113*, which allowed imports of capital goods without exchange cover as direct foreign investment. Since foreign investment entered at the 'free' rate and exchange cover for imported capital goods had to be purchased at the Category III auction there was a subsidy to foreign investment equivalent to the difference between the Category III rate and the 'free' rate. Different views on the distributive impact of *Instrução 113* to a large extent reflect the comparison of such rates in different moments in time and consequently different relative levels of the 'free' and Category III exchange rates.

A political deal between Jânio Quadros, the maverick governor of São Paulo, and President Café Filho involving the substitution of the president of the Banco do Brasil led to Eugênio Gudin's substitution as Minister of Finance by José Maria Whitaker, who had held that post in the Provisional Government following the 1930 Revolution and who therefore returned to the Ministry of Finance after twenty-five years, once again representing *paulista* interests, especially those of the coffee industry. The new minister reversed the contractionary policies concerning credit and expenditure. His priority was to reform the multiple exchange rate system which was considered to hurt export interests and particularly those of coffee growers. Whitaker and Roberto Campos, superintendent of the BNDE, following IMF advice, thought that Brazil should accept lower international coffee prices and increase market share and that the multiple exchange rate should be abandoned in favour of a single rate. There were preconditions to fulfil concerning consolidation of short-term foreign debt, a standby arrangement to avoid excessive fluctuation of the new rate and adjustment of the tariff schedule to cope with the removal of multiple import rates. A new tariff schedule, based on *ad valorem* rates, would solve one of the problems raised by unification of the rates, but IMF support would be essential to raise finance abroad. A report, written by Edward Bernstein, an IMF official, considered several alternatives for the new exchange regime. The Brazilian final draft proposed a regime based on a single floating exchange rate. There would be a transitional regime affecting coffee as the exchange rate applied to coffee would converge to the single rate in a time

span of two years ending the so-called *confisco cambial* (foreign exchange exaction). Opposition inside the cabinet as well as opposition from several of the candidates for the presidency in 1955 led to Whitaker's fall even before the events of November 1955, the so-called *Novembrada*: the failure of the attempted coup by the 'liberals' to prevent president-elect Juscelino Kubitschek taking office in January 1956 and the successful 'constitutional' counter coup which ensured that he did.

The difficulties faced by Gudin and Whitaker underline the kind of constraints faced by 'liberal economists' in the formulation and implementation of a truly liberal programme. Even Gudin, who rapidly exited from the Ministry of Finance due to his lack of 'political realism', found it difficult to condemn the inherited multiple exchange regime due to its fiscal implications. Whitaker's nominal commitment to liberalism was essentially marred by his political backing which made it impossible to consider policies which would unfavourably affect coffee interests.

The growth record in the 1945–1955 period was impressive, with GDP expanding at 7.1 percent. The record under Dutra was slightly better than in the first half of the 1950s, with the economy growing at 7.6 percent annually in spite of the recession in 1947 when the annual rate fell to 2.4 percent. In the two worse years under Vargas, 1951 and 1953, in spite of the difficulties concerning stabilisation, GDP increased at almost 5 percent annually. However, population growth, which in the 1940s was at 2.4 percent a year compared to 1.5 percent in 1920–1940, increased to 3.0 percent in the 1950s. So the improved GDP growth record was rather less satisfactory on a per capita basis.

Industrial output increased at an annual rate of 9.8 percent in the decade 1945–1955, more rapidly under Dutra because of the very significant growth in 1946 as part of the recovery immediately after the war. In contrast agricultural output growth was slow at 3.9 percent, and more so under Dutra when it increased at an annual rate of only 2.7 percent. But the performance of subsistence agriculture in 1945–1950 was good with the output of rice and beef increasing at more than 8 percent a year and maize and beans at more than 4 percent. But in spite of lower output growth and in contrast with the 1930s, there was no significant contraction of the share of agriculture in GDP as agricultural relative prices rose in relation to industrial products. Employment in agriculture as a share of the active population fell from 65.9 percent in 1939 to 57.8 percent in 1949.

The share of industry in GDP rose from 20.8 percent in 1945 to 24.1 percent in 1955 mostly at the expense of services. Industrial output structures

in 1939 and 1949 were not radically different as the share of the textile sector in total value of production decreased only two percentage points to reach 18.7 percent. But the relative contraction of most other sectors producing wage goods was substantial. Sectors producing industrial inputs, such as steel and iron products, as well as consumer durables and to lesser extent capital goods, gained some ground. There is evidence, however, that structural change accelerated in the first half of the 1950s as import substitution spread to the production of most consumer durable goods. In 1949, the textile industry was still almost three times the size of the metallurgical industry. Wage goods accounted for most of the industrial output: the textile sector combined with food processing accounted for more than half the aggregate value of production in 1949 compared to 62.5 percent in 1919 and 56.8 percent in 1939. The value of production of more modern sectors – electrical, mechanical and transport equipment – was 5.3 percent of the total in 1949 compared to 4.2 percent in 1939 and 1.3 percent in 1919. Productivity of labour engaged in manufacturing industry as of the census of 1949 fell to 4.7 times the productivity in agriculture compared to 5 times in 1939. The ratio of imports in total supply of industrial products, which reached a trough of 11.2 percent in 1942–1943, rose to a peak to 18–20 percent with the import boom in 1951–1952, and then started to fall rapidly: in 1955 it was already below 10 percent.

The Golden Years, 1956–1962

In 1956 President Juscelino Kubitschek had an initial choice between a stabilisation programme inspired by Edward Bernstein of the IMF and promoted by his more orthodox supporters such as Lucas Lopes, his future Finance Minister, and Roberto Campos, future Planning Minister under the military regime after 1964, and a policy giving greater emphasis to growth. It was politically expedient to stick to an overtly expansionary policy with José Maria Alkmin as Minister of Finance. However, 1956 was for most purposes a transitional year as the government concentrated in drawing up its plans. But the imbalances in public accounts increased significantly as the Treasury's cash deficit increased from 1 percent to 2.6 percent of GDP and GDP growth was only 2.9 percent as there was a significant crop failure. Inflation remained above 20 percent as measured by the cost of living in Rio de Janeiro.

The cornerstone of the economic programme was the *Programa de Metas* [Targets Plan] which would allow the Brazilian economy to grow

fifty years during the five years of his term of office [*50 anos em cinco*]. This was to cope both with the business of overhauling the infrastructure, left unfinished by Dutra and Vargas, and with the deepening of import substitution to cover the remaining consumer durables, mainly motor cars, and industrial inputs. Also important, both as a drain in public resources, and as a project to mobilise political support, was the building of Brasília, with its implied national integration emphasis crowning a long process of not very elaborated criticism of the concentration of expenditure and political power in the coastline in detriment of the hinterland.

Formulation of the Plan, heavily inspired by the previous work of the Brazil–United States Mixed Commission (1950), as well as on studies undertaken by CEPAL, the United Nations Economic Commission for Latin America, was the result of work by the *Conselho de Desenvolvimento* [Development Council], a new agency directly under the President. The Conselho orchestrated a large number of *grupos executivos* [executive groups] in charge of specific output targets. There was no global macro-economic framework coherent with physical targets mostly related to the infrastructure or to the industrial sector. There was also no attempt to define how the projects were going to be financed. Details started to be defined in the third year of the plan's implementation. Nor was there any special consideration of interindustry implications of the planned increase in capacity. Major infrastructural targets referred to expansion between 1955 and 1960 of the road network (construction of 13,000 kilometres of roads and paving of 5,800 kilometres, compared to existing 460,000 kilometres and 3,100 kilometres, respectively) as well as railroads (construction of 3,100 kilometres, compared to the existing 37,000 kilometres). New industries producing rolling stock and ships were to be established. Energy targets covered increases in electricity generating capacity (from 3,200 MW to 5,200 MW), oil production (from 6,000 barrels to 100,000 barrels per day), oil refining (from 130,000 to 300,000 barrels per day) and coal production (from 2.1 to 3.1 million tons).

Government plans concerning the infrastructure were based on the recognition that the old model of energy utilities controlling power generation, transmission and distribution had been exhausted as exchange rate fluctuations had enormously increased the friction between such companies and the government, and led to underinvestment. This explains the expansion of public involvement in the generation and transmission of electricity partly based on expertise accumulated by CEMIG, the efficient electricity company owned by the state of Minas Gerais. On the

other hand, there was also the implicit recognition that the State would be unable to efficiently run the railway system. At the planning stage, and even more during implementation of the *Programa de Metas*, it was apparent that the government had opted for the significant expansion and improvement of the road network in detriment of a serious overhauling of the railway system. In fact, most of the government efforts concerning the railways were centred on the transformation of locomotives to oil burning in spite of the unfavourable effects on the demand of high-ash and high-sulphur domestic coal. There was also complementarity between plans related to the expansion of the road infrastructure and the target to produce domestically trucks and light commercial vehicles. The road versus rail competition which had become evident in the second half of the 1920s was going to be decisively won by the road in the second half of the 1950s.

Planned increased production of industrial inputs included: steel production (1.2 million to 2.3 million tons of steel), cement production (3.6 million to 5.0 million tons), chemical products, nonferrous metals and cellulose. Iron ore output mainly for export was to be expanded. An automotive industry was to be established which would produce in 1960 170,000 vehicles with a crudely defined index of nationalisation by weight set at 95 percent for motor cars and 90 percent for trucks and vans. Industrial subsectors producing capital goods (heavy electrical equipment, machine tools, boilers and other heavy equipment) were singled out to be supported. Agriculture was covered rather incompletely by targets for tractors, fertilisers and wheat production. There was some nominal reference to education, but again more as the lipservice to make the plan politically more palatable.

State investment was to play a crucial role in the plan, especially in the targets related to infrastructure and the production of industrial inputs. There was further expansion in the role of the State as a producer of goods with an increase in the number and importance of state enterprises. The share of government and government enterprises rose from around 25 percent of total investment before 1956 to a third in 1956–1960. The construction of two new integrated steel mills, *Usinas Siderúrgicas de Minas Gerais-Usiminas* [Steel Mills of Minas Gerais] and *Companhia Siderúrgica Paulista-Cosipa* [Paulista Steel Mills], was started. *Petrobrás* was in charge of the targets related to oil production and refining, given the legal state monopoly. It also increased its fleet of tankers. There was significant public investment in the construction of new state-owned hydroelectric plants in

the Southeast. Vale do Rio Doce was to continue its expansion to become a major world producer of iron ore. Companhia Nacional de Alcalis would become an important producer of soda ash.

The interest of the private sector and especially of direct foreign investors, was raised by the concession of comprehensive incentives which covered special fiscal treatment, credit subsidies – mostly related to loans extended by BNDE – differentiated access to foreign exchange and import duty exemptions. Since inflation remained most of the time above 12 percent, and the usury law continued to be applied, to obtain public credit was equivalent to obtain a stream of subsidies in the future. Private banks would not be involved in such credit operations, which were not short-term, and were able to circumvent legal restraints by expedients, such as fictitious administrative costs or by tying loan concession to the holding of deposits to compensate them for the negative real rates of interest implied by legislation in an environment marked by significant inflation. Implicit subsidies related to nonindexed Bank of Brazil loans are estimated to have varied in the 1956–1961 period between a low of 35 percent of the Treasury deficit in 1957 to a peak of 151 percent of the Treasury deficit in 1959. Bank of Brazil credit corresponded over the 1952–1961 period to between 48 percent and 53 percent of total credit with a slow declining trend after 1959. Credit by BNDE in the 1950s peaked in 1958 when it was equivalent to about 4 percent of total banking credit. BNDE played an additional crucial role which was to guarantee foreign loans contracted abroad by Brazilian enterprises totaling US\$890 million.

By far the most important instrument used by the government to attract foreign capital was *Instrução 113* of SUMOC. After an initial period under the multiple exchange rate regime when the ‘free’ rate (applied to financial flows) was higher (cruzeiro/U.S. dollar) than that applied to Category III imports (capital goods) the position was reversed and the free rate remained below that of Category III imports during 1955–1957. There was thus a subsidy for capital entering the country in the form of equipment under *Instrução 113* if compared to the alternative of entering as a financial flow and then competing for foreign exchange cover in the exchange auctions. After 1957 subsidy was to be assured by the free rate remaining below the ‘general’ import exchange rate. The peak of 1951 would only be exceeded in 1968. The use of other instruments to generate foreign exchange such as merchandise imports without foreign exchange cover under the terms of *Instrução 113* was thus crucial to make possible high investment, and hopefully, high growth. About 75 percent of the foreign investment inflow

into Brazil in 1956–1960 was under the regime of *Instrução 113*. Seen from the angle of imports, no less than 70 percent of capital goods imports in the period were made under the same regime.

Another important factor of attraction of foreign investment was the Brazilian high tariff. The new tariff law 1957 had transformed the Brazilian schedule based on specific duties which had been almost completely eroded by inflation into a schedule based on *ad valorem* duties which could reach 150 percent. Government policy, by restricting right of establishment, assured that a sufficiently low number of entrant foreign firms had sufficient market power to extract big profits behind the high import tariff wall. This acted as powerful attraction, especially among European motor-car manufacturers that were interested in expanding productive capacity abroad in the mid-1950s.

Under Kubitschek there was no attempt to modernise the machinery of public administration. This was a corollary of the ‘fifty years in five’ motto combined with a consensus that bureaucratic foot-dragging should not be allowed to interfere with the *Programa de Metas*’s implementation. Typically, the existing machinery was circumvented mostly by the creation of transitional institutional arrangements. These took the form of *grupos executivos* [executive groups] created ad hoc to oversee the sectoral implementation of the *Programa de Metas*. But state enterprises also played an important role in the process of side stepping the traditional obstacles to ‘efficient’ government. The conventional public administration machinery was left aside to continue in its long term declining trend portrayed by the mutually self-reinforcing combination of low levels of pay and low levels of efficiency.

The *Programa de Metas* certainly marked a deepening in the process of import substitution which became important in branches of industry unaffected until then, such as the automotive industry and many segments of the production of industrial inputs, and to a lesser extent, of capital goods. But, given the scope for foreign direct investment, it is a tribute to Kubitschek’s political acumen that he managed to make sure that his image as an economic nationalist prevailed in the Brazilian political folklore. A reasonable explanation for his achievement is perhaps the emphasis placed in the Brasília project as a symbol of a new sense of nationhood more representative of the Brazilian hinterland realities away from the relatively cosmopolitan coastal regions. His image as a nationalist was also enhanced by the fact that in the public mind the President, when faced with a choice repeatedly opted for ‘development’ instead of ‘stabilisation’.

Although it is generally accepted that stabilisation objectives had a very low priority under Kubitschek, the favourable evaluation of other aspects of his administration especially in the political field tends to obscure how bad was the macroeconomic management between 1956 and 1961 and the extent to which, aggravated by the political irresponsibility of Jânio Quadros, Kubitschek's successor, in 1961, it contributed to the economic turmoil which was an essential element to explain the military coup of 1964. If the traditional Brazilian paradigm of the *homem cordial*, who in all circumstances feels it difficult to say no and who is ruled by the heart, can be transposed to policy-making, Kubitschek, with his utter disregard of macroeconomic constraints, fitted it extremely well. It would certainly be an exaggeration to consider his behaviour as strategic, though his lack of enthusiasm for electing a successor of his own party was well known. He was simply applying at the Federal level the populist recipe which had been extremely successful in his mayorship of Belo Horizonte and when he was governor of Minas Gerais. From a macroeconomic point of view he left to Quadros an even worse inheritance than the one that he had received in 1956.

Inflation in 1956 measured by consumer prices was at about the same level of 1954–1955. In 1957 it declined to 15 percent and on average remained at the same level in 1958. But annual data hide important monthly fluctuations. In 1956, monthly inflation rates were maintained below 2 percent, and in 1957, after some instability, consumer prices fell in some months almost 2 percent due to the very good crop. But in early 1958 inflation accelerated once again to reach 2.6 percent in May. Inflationary pressures originated in the continued imbalance of public accounts as the government deficit mounted to 26 percent of total expenditure in 1956 and 40 percent in 1957, boosted by the building of Brasília, the new capital, by the chronic deficit of government-owned transportation concerns and by purchases of surplus coffee output. These latter amounted in the second half of the 1950s to three times the direct cost – estimated at 2–3 percent of GDP – of building Brasília. Coffee purchases absorbed more resources than those generated by the wedge between the average exchange rates for the sale and the purchase of foreign exchange which was a feature of the multiple exchange rate regimes in force during the period. Transfers to government-owned transportation concerns fluctuated between 10 percent and 25 percent of the aggregate deficit in 1956–1960. On the revenue side from the mid-1950s growth of consumption and stamp tax revenues started to outpace income tax growth. The 1957 reform also meant that import duties became relevant

again. By 1961, Federal revenue was made up of taxes on consumption (38.8 percent), income (26.5 percent), and import and stamp duties (both 11.3 percent). Both the consumption tax and the tax on sales, which had displaced export taxes as the main source of revenue for the states, were not value-added taxes but taxes on the value of transactions with all the resulting distortions due to cascading. The tax burden increased from 15 percent in 1947–1950 to 16.3 percent in 1950–1955 and 19 percent in 1956–1960. Inflation total transfers (including inflation tax effects on the public and the banks) rose to around 4 percent of GDP in the mid-1950s.

The deterioration of macroeconomic conditions led to still another stabilisation attempt. Lucas Lopes, the new Minister of Finance, and Roberto Campos at the BNDE, after a delay of two and half years, seemed to have their chance to implement a stabilisation programme: a one-year *Programa de Estabilização Monetária* [Programme of Monetary Stabilisation], 1958–1959, was to be the first step on the road to stabilisation. But Kubitschek resisted abandoning his cherished expenditure plans and his half-hearted launching of the stabilisation programme was an indication that it was doomed to fail. The plan's core was familiar: credit control and expenditures cuts, especially of transfers to public-owned railways and shipping companies. There was some progress in relation to the public deficit which was halved in 1958 to 20 percent of total expenditure. But banking system loans to the private sector, including the Bank of Brazil, fell only modestly due to the pressure of coffee growers squeezed by the crisis. In spite of much criticism of the Bank of Brazil as responsible for undermining the programme its loans fell almost 16 percent in 1959 in real terms. The second half of the 1950s was marked by the continued fall of real credit per unit of GDP which decreased a further 23 percent between 1956 and 1960.

Under Lucas Lopes, monthly inflation rate measured by the wholesale price index remained above 2 percent until May 1959 and was above 5 percent in some of the months of the summer of 1959. Ironically, in July, when the inflation rate reached its lowest rate since the beginning of 1958, Lopes was substituted by Sebastião Paes de Almeida, the former president of the Bank of Brazil. The emphasis on development prevailed. Public deficits increased again, reaching 25–26 percent of total expenditure in 1959–1960. The yearly inflation rate for 1959 of nearly 40 percent was probably a record since the early 1890s.

Protracted negotiations with the International Monetary Fund came to nothing as the Lopes–Campos group lost influence. The Fund was apparently prepared to accept the Brazilian proposals on monetary and

fiscal policies, but deemed unsatisfactory the proposed changes in tariff and exchange rate policies. The government announced that Brazil had broken off relations with the Fund. Brazil, of course, remained a member of the Fund and rather than a '*ruptura com o Fundo*' [break with the Fund] there was something rather less spectacular: a break down of negotiations with the Fund. The myth of the '*ruptura com o Fundo*' and its astute political exploitation by Kubitschek enhanced his reputation as a nationalist who had the courage to defy the IMF and served as an at least partial excuse for the bad macroeconomic performance in 1956–1961 as resulting from constraints imposed abroad. It was stressed, but not very convincingly, that there had been a serious intention to stabilise, but the political price asked by the IMF was too high. Probably the price asked was too high, but was there a serious intention to stabilise?

There was, however, no unanimity on the causes of inflation in Brazil. It may sound somewhat surprising that, given the chronic fiscal imbalances and the persistently overexpansionary monetary and credit policies, there was such a proliferation in Brazil of structural interpretations of inflation in the 1950s and early 1960s. The classical structuralist interpretation that inflation could be mainly explained by the structural imbalance between the the agricultural sector supply response and the growth of urban population was much less popular in Brazil than elsewhere in Latin America. And for good reason – agricultural performance was not bad after the late 1940s. There is some evidence supporting interpretations which stressed that it was the market power of intermediaries in the commercialisation of foodstuffs rather than the lack of response of agricultural supply that was a significant source of inflation in the late 1950s and early 1960s. Between the late 1940s and 1964 there was a more or less continuous history of deterioration of public accounts and acceleration of inflation. This was due in part to the government's inability to borrow, because of the limitations imposed by the usury law, and also to the low political priority given to stabilisation in contrast to growth.

The exchange regime created by *Instrução 70* in 1953 was simplified in 1957. The introduction of an *ad valorem* tariff schedule made it possible to reduce the number of multiple import exchange rates which had been created mainly as a substitute for such a tariff. The former five import categories were reduced to two: a general category to include raw materials, capital goods and products for which there was not 'sufficient supply'. Imports of other goods were to be paid using the more devalued 'special' category exchange rate which of course made them more expensive. A third

category of imports, oil, newsprint, fertilisers and 'equipment for priority projects' were to be paid at the '*câmbio de custo*' [cost of exchange rate] which could not be below the weighted average export rate. Auctions for the two import categories as well as the four export bounty categories were maintained, but in later years nontraditional exports were increasingly paid at the free 'rate'. A newly created *Conselho de Política Aduaneira* [Customs Policy Council] with wide discretionary powers to classify imports in different categories as well as partially to waive duties or block imports using the 'similarity criterion' which blocked imports of products which could be produced domestically. One third of Brazilian imports still originated in the United States, but some European suppliers, especially Germany, gained ground in the 1950s.

Exports reached a peak in 1951 and afterwards began a long process of decline. They fell steadily during Kubitschek's government reaching US\$1.2–1.3 billion in 1958–1960 compared to more than US\$1.7 billion in 1951. In spite of the advance of industrialisation Brazil remained very much an exporter of commodities and mostly of coffee. Coffee exports which in the early 1950s were 60–70 percent of total exports maintained their importance in the middle of the decade and fell only slightly below 60 percent in 1960. The U.S. market still absorbed around 45 percent of total exports and Europe under 30 percent. Coffee scarcity in the early 1950s stimulated substantial expansion of supply both in Brazil and elsewhere so that in the second half of the 1950s Brazil was once again facing problems of coffee overproduction. Coffee prices by the end of 1955 were back to their levels of the beginning of 1953. In 1957, they started to decline again as the long-term coffee price cycle unfolded. In 1959–1961, coffee export prices were roughly two-thirds of 1955–1957 prices due to a collapse in the second half of 1958.

Over Kubitschek's term of office foreign debt increased by 64 percent to reach US\$2,372 million by the end of 1960, so that the gross debt-export ratio deteriorated from 1.02 by the end of 1955 to 1.87 by the end of 1960, as exports were roughly stagnant. In the window of opportunity created by the hope of sustained adoption of a stabilisation programme there was an interruption of the World Bank abstinence from lending to Brazil and US\$98 million of loans were provided to the electricity sector in Brazil. In the later years of Kubitschek's period, the government repeatedly resorted to high cost U.S. dollar–cruzeiro swap operations guaranteed by the gold reserves through which the government raised foreign exchange cover in the short term and accepted the devaluation risk. The yearly net inflow

of direct foreign investment including re-investment rose from less than US\$60 million yearly on average in 1947–1954 to almost US\$140 million in 1955–1961 in response to the generous subsidies offered.

Productivity of labour in manufacturing industry increased substantially in relation to productivity in agriculture to reach 7.5 times as recorded by the 1949 census. Industrial employment increased 3 percent annually in the 1950s while the industrial output increased 9.2 percent. In fact industrial employment increased marginally less in the 1950s than in the 1940s. Agricultural employment increased 1.8 percent per annum and agricultural labour productivity increased by 30 percent in the decade. In the 1950s the share of agricultural employment in total active population fell only modestly from 57.8 percent to 54 percent. The acceleration of the rate of population growth meant that there were going to be in the future increasing strains to absorb the cohorts of labourers seeking employment and the services sector would tend to absorb such manpower surpluses. In contrast with the second half of the 1940s, minimum wage policy in the 1950s was relevant, as there was some attempt to maintain its real value. It reached a peak in 1959. In a rather innocuous effort to contain some of the undesirable consequences of higher inflation, the Federal government tried to control basic food prices in the 1950s and early 1960s through the *Comissão Federal de Abastecimento e Preços* (COFAP) [Federal Commission of Supply and Prices]. Different modalities of rent control were also adopted in the 1950s.

In the late 1950s there were efforts for the first time by the Federal government to consider in a more systematic way policies related to the reduction of inequalities between different Brazilian regions. The recognition of such inequalities stretched back long before 1930. The drought and hunger in the late 1870s had an important role in expelling population from the Northeast to other regions, such as the Amazon. An important public works programme had been undertaken under Epitácio Pessoa in the early 1920s to build up reservoirs in the Northeast. Both the São Francisco and the Amazon valleys had public agencies nominally in charge of promoting their development since the 1940s. An obsolete and ineffective *Departamento Nacional de Obras contra as Secas* [National Anti-Drought Department] had failed to make substantial progress in alleviating the effects of periodical droughts in the Northeast. Under President Kubitschek efforts were concentrated on the study of regional inequalities and formulation of policies to revert such trends. A *Grupo de Trabalho para o Desenvolvimento do Nordeste* (GTDN) [Working Group for the

Development of the Northeast] was created. Its conclusions suggested two lines to cope with the economic problems in the Northeast. The first, which was to remain a dead letter, was to adopt policies which would foster the transformation of land use both in the humid and semi-arid zones, and the dislocation of the region's agricultural frontier. The second was to raise the productivity of labour by creating industrial jobs. Following these recommendations a *Superintendência de Desenvolvimento do Nordeste* (Sudene) [Superintendency of Development of the Northeast] was created in 1959 and massive fiscal incentives were directed to finance the migration of investments to the region but this occurred mostly after 1964.

It has become customary to claim that the *Programa de Metas* was successfully implemented in 1957–1961. But success has to be qualified even if account is not taken of its heavy macroeconomic cost. It is certainly relevant to stress that the Brazilian economy went through a period of very rapid growth and that this was explained to a large extent by investments planned under the *Programa*. But the comparison of sectoral targets and achievements points out to a clear division between targets which were seriously pursued and those which were not. There was an unqualified failure in meeting targets concerning wheat, coal, railway construction and oil refining. The most successful effort was in relation to road building whose target was exceeded by 38 percent and electric power generation projects which met 82 percent of their target. The fulfillment of many targets concerning the production of steel, cement, oil and cars and trucks remained between 60 and 76 percent of initial plans.

But these shortcomings are put in perspective by the outstanding growth record of the period. GDP increased on average by 8.1 percent annually between 1955 and 1960. 1956 was quite a bad year as GDP increased only 2.9 percent, the worst performance on record since 1947. If the plan period of 1957–1961 only is taken into account GDP growth was of 9.3 percent per annum. The *Programa de Metas* raised gross fixed capital formation as a proportion of GDP from around 14.5–15 percent in 1956–1957 to peak levels of 17 percent in 1958 and 18 percent in 1959. The extremely high rates of GDP growth suggest that increased capacity utilisation probably played a relevant role as a source of growth in the late 1950s. Between 1956 and 1961 industrial output increased at 11.4 percent annually. This was of course concentrated in the branches of industry directly or indirectly most affected by the *Programa de Metas*: transport equipment (42 percent annual rate of output growth), electrical and communications equipment (24.1 percent)

and rubber products (16.4 percent). But even traditional sectors, such as textiles, had a good performance with output expanding at more than 10 percent per annum. Estimates of the relative importance of sources of industrial growth indicate that about a third of industrial growth between 1949 and 1962 was related to a fall in the import coefficient rather than demand or export growth. This very good industrial performance tends to hide the fact that agricultural performance was very creditable with output increasing at 5.8 percent per annum. Food production for domestic consumption (beef, milk, manioc, corn, beans and rice) more than kept pace with population growth.

Crisis in the early 1960s

It is essential, in order to put into perspective the achievements of Juscelino Kubitschek, to consider the long-term effects of policies adopted during his term of office. His successor, Jânio Quadros, who became president on 31 January 1961, rightly stressed how unfavourable was the inherited macro-economic position: high inflation, fiscal imbalance and prospective balance-of-payments crisis with eroded reserves. His main objective became the control of inflation and this was to be achieved through policies which removed constraints related to the public deficit and the balance-of-payments. Steps were taken to unify the exchange rate: the former 'general category' imports were transferred to the so-called free market. The '*câmbio de custo*', which applied to imports deemed essential, such as wheat, fuels and newsprint, was devalued 100 percent (cruzeiro/U.S. dollar rate) and transferred to the free market. But auctions for the 'special category', that is non-essential imports, continued to take place. A new system of sale of foreign exchange to cover imports was introduced. This was based on the compulsory purchase by importers of import bills in cruzeiros which would mature in 150 days of the same amount of the exchange cover being bought of bills. Already in the end of Kubitschek's period some exporters were paid in Bank of Brazil paper rather than in cash, but this was discontinued by the end of 1961. In certain periods between 1962 and 1964 the importer could decide between purchasing Bank of Brazil paper earning 6 percent yearly for four months or make noninterest deposits for larger amounts. Part of coffee export proceeds continued to be retained and other exporters could sell export proceeds in the free market.

The reform marked the end of the possibility of using the '*ágios e bonificações*' account to generate resources in domestic currency. Suggestions

that this decision was an important explanation for the disequilibrium in government accounts and, consequently, higher inflation, seem to be misplaced. The net result of such accounts had not been always substantial in the past and the fall in their importance had been counterbalanced by other ways to raise revenue, such as sales of import bills or compulsory import deposits. Balance-of-payments equilibrium required the reschedule of foreign debt service payments which were heavily concentrated in the short-term: more than 60 percent in the four years following 1960. Foreign debt service increased very fast after 1955, rising from 13 percent to 43.6 percent of exports in 1960. The service of loans totalling US\$1.1 billion, 80 percent in the United States, was rescheduled in 1961. This was to be Quadros's main achievement.

The political crisis which followed Quadros's sudden resignation in August 1961, after less than seven months in office, increased uncertainty about future developments which could unfavourably affect the economy. It was feared that Vice-President João Goulart, who under the constitution would succeed Quadros, would only contribute to the increasing lack of macroeconomic control which had become so marked since the demise of the 1958–1959 *Programa de Estabilização Monetária*. Goulart, Vargas's Labour Minister in 1954 (responsible for the 100 percent increase in the minimum wage in May), had been elected Vice-President both in 1955 and 1960 as the candidate of the Partido Trabalhista Brasileiro (PTB) with the strong support of the trade unions. There was strong resistance by a section of the military to his taking office. And these fears were not totally allayed by the political compromise which led to his being allowed to assume the presidency but with his powers curtailed under a parliamentary regime.

The composition of Goulart's first cabinet revealed an attempt to enter into an agreement with the conservatives. The choice of Tancredo Neves as Prime Minister and, especially, Walter Moreira Salles, a politically influential banker in the centre of the political spectrum, as Minister of Finance, suggests an intention to regain control over the economy. Neves's programme was, however, mainly rhetorical and full of inconsistencies. The government was going to seek a reversal of the effects of the massive monetary expansion which had resulted from the political crisis in August–September 1961 and to maintain monetary supply stable. Public deficit was to be financed on an undefined 'noninflationary' basis. Lipservice was paid to many reforms, including a fiscal reform which was to generate resources which would make possible to increase fixed gross

capital formation from 14 percent to 23.75 percent of GDP in five years. A realist foreign exchange policy was to be adopted based on a single exchange rate, but quantitative import limits in the 'special category' were to be maintained. Goulart, in spite of opposition by his cabinet, entered into a personal commitment to reform the constitutional principle that acquisition of land for land reform purposes should be on a cash basis only.

The economic record in 1961 was not too unfavourable: inflation remained roughly stable at around 30 percent a year (cost of living index Rio de Janeiro) and GDP increased 8.6 percent with industrial output growing 11 percent and agriculture 7.6 percent. But there was a sharp fall in gross capital formation to 13.1 percent of GDP, the lowest level since 1950. The foreign debt increased by US\$500 million to US\$2,835 million at the end of the year, in the wake of the negotiations on rescheduled payments. This corresponded to a gross debt–export ratio of 2.0. Reserves increased by US\$307 million as exports recovered by about 10 percent but still much below their 1951 peak.

Coffee exports in the Goulart years still accounted for 50–53 percent of total exports. The United States still absorbed 40 percent of Brazilian exports but was being rapidly substituted as Brazil's main market by Europe. In early 1960, the Treaty of Montevideo had been signed establishing the Latin American Free Trade Association which included most South American economies and Mexico. The total elimination of trade barriers was to be achieved in twelve years by means of yearly negotiations which would reduce by at least 8 percent the weighted average duties applicable to third countries in favour of LAFTA members. After a promising start in 1962 and 1963, the process came to a halt. In September 1962, a first international coffee agreement including the United States was signed in an effort to cope with the coffee glut in the market. Coffee stocks rose from 5.6 million bags in 1956 to 40.3 million by the end of 1960, and 51.7 million by the end of 1963. A big program of coffee tree eradication was introduced, reducing the number of coffee trees in Brazil by almost 40 percent in 1962–1967.

Import-related remittances had been discouraged by thinly disguised devaluation such as the increase to 150 percent of the import value of the compulsory purchase of import bills which had to be held for 150 days without earning interest with yearly inflation around 30 percent a year. Financial operations required purchases equivalent to 50 percent of the remittance to be held for 180 days. In early 1962, these measures were

temporarily reversed as the percentage of required purchases was to be progressively reduced by ten points monthly.

The marked deterioration of relations with the United States had a political dimension, too, because of the shifts implied by Jânio Quadros's new foreign policy – *a política externa independente* – and, especially, Brazil's abstention in the vote to expel Cuba from the Organization of American States. Brazil–United States relations were further strained by impending legislation, reminiscent of Vargas's much-criticised speech in the end of 1951, that would set a 10 percent limit on yearly remittances by foreign firms and that reinvestment could not serve as a basis for computation of profits which could be remitted. And also by the cancellation of mining rights of the Hanna Corporation and the federal government's condoning of Governor Leonel Brizola's expropriation of *Companhia Telefônica Nacional* [National Telephone Company], a subsidiary of the International Telephone and Telegraph (ITT) which operated in Rio Grande do Sul. This expropriation followed a previous wave of expropriations in 1959, also by Brizola, of *Companhia de Energia Elétrica Rio-Grandense* [Electrical Energy Company of Rio Grande], a subsidiary of the American Foreign Power Company, and of other ITT assets. The yearly net inflow of new direct investment was sharply reduced to less than a third of its level in the second half of the 1950s but reinvestments were significantly higher as investments matured.

It is not surprising that the growth of the foreign debt slowed down after the renegotiations of 1961: it increased less than 9 percent until the end of 1963. This reflected the increasing difficulties of raising foreign loans as the government became progressively more nationalist and hostile to foreign investment. The United States official loans which were extended under the Alliance for Progress programme were mainly directed to states where governors were political opponents of the President. Inter-American Development Bank's loans totaling US\$133 million in 1961–1963 provided some relief. The debt-export ratio of 2.47 was high but still very distant from the 4.0–5.0 range typical of the great depression or of the early 1980s.

Goulart's visit to the United States in April 1962 to reassure the U.S. government on foreign investment was not a success. It was clear that there was a progressive deepening of the fiscal crisis. The public deficit increased from 26.1 percent of total expenditure in 1960 to 29 percent in 1961, and then to 33–34 percent in 1962–1963. The tax burden fell to 18.2 percent in 1961–1963 and *seigniorage* increased from 4 percent to 7–9 percent of GDP. Most of the pressure on the level of expenditures was related to the massive deficits of publicly owned enterprises such as the railways and

shipping companies: *Rede Ferroviária Federal* [Federal Railways Network], *Lloyd Brasileiro* [Brazilian Lloyd] and *Cia. de Navegação Costeira* [Coastline Navigation Company]. In May 1962, the lack of fiscal and monetary control became evident and added to political difficulties related to structural reforms and foreign policy. Tancredo Neves, very much a man of the Centre, resigned and an aborted further attempt to counter deterioration in the control of macroeconomic policy was made when the name of Francisco San Tiago Dantas was considered for Prime Minister. In spite of being more often associated with the more radical leanings of Goulart's administration because of his support of a more independent foreign policy, he was firmly committed to a policy of ordering government priorities, expenditure cuts and monetary restraint. His inability to win Congressional approval as Prime Minister underlined the costs of the political stalemate.

After a further attempt to obtain Congressional support for special powers for his chosen Prime Minister, Francisco Brochado da Rocha, Goulart invested all his political resources in recovering presidential bargaining power with the repeal of the parliamentary regime. But after this attempt the political basis of the coalition in government was eroded as shown by the substitution of Moreira Salles by San Tiago Dantas as Finance Minister. The strengthening of the parties supporting Goulart in the Congressional elections in October 1962 was followed by a massive victory in the plebiscite on a return to a presidential regime in January 1963 amid further acceleration of inflation to reach 5–7 percent a month and continued slowing down of growth. In 1962 real credit stagnated. The annual inflation rate in 1962 rose to nearly 50 percent. Additional inflationary pressures were generated by the approval in the end of 1962 of new legislation on the 'thirteenth' wage, an additional monthly wage to be paid to all workers at the end of the year.

The rate of growth of GDP fell to 6.6 percent in 1962, the lowest rate since 1956. Manufacturing industry output, which had played a central role in the growth process since 1942, and especially under Kubitschek, still increased 8.1 percent. Agricultural output increased by 5.5 percent, even if coffee production fell in physical terms. The good agricultural record since the mid-1950s tended to undermine the core of the case for land reform as growth of food production was not being outpaced by population growth. Data on fixed capital formation point out to a recovery to 15.5 percent of GDP in 1962 which is not unlikely to have resulted from defective national accounts statistics as most sectoral data point out to a sharp fall in investment after 1961.

The fall in exports and in capital inflows together with the modest rise in imports, maintained pressure on the balance-of-payments. But there is no evidence of severe distortions in the foreign exchange regime. There was a reduction in the compulsory purchases of import bills and the cruzeiro devaluation was similar to the rate of domestic inflation. It would be wrong to put too much emphasis on the foreign exchange policy to explain the balance-of-payments difficulties: the effective exchange rate in 1962 was at practically the same level of that of 1964 and, according to the World Bank, very near its peak (most devalued) level between the early 1960s and the late 1970s. It was in 1963 that it became overvalued, but not much beyond the level typical of the second half of the 1960s.

Following the government's victory in the January 1963 referendum and the strengthening of Goulart's powers as president, a last ditch attempt was made to reverse the acceleration of inflation. Celso Furtado, who had added to his reputation as an influential author of books on the Brazilian economy the work developed at the GTDN and SUDENE, supervised the elaboration of a *Plano Trienal* [Triennial Plan] which was to serve as a guideline for policy. It placed strong emphasis, in spite of the heterodox views held by Furtado in the past, on the control of inflation, and singled out excessive demand entailed by the excessive level of public expenditure as inflationary. The aim of the stabilisation programme was to reduce inflation to 25 percent in 1963 and 10 percent in 1965. Potential public deficit was to be reduced by 60 percent. Nominal limits of credit expansion for the private sector were set at 35 percent when the equivalent yearly inflation rate was 60 percent.

The plan allowed for 'corrective' inflation as there was need to adjust some administered prices, following subsidy cuts mainly affecting fuel and wheat. In January urban transportation prices were increased. Prices of fuel and wheat were increased by 100 percent and 70 percent, respectively. Monthly inflation rates in the first two months of 1963 reached 20 percent and 11 percent. This may have been partly the result of price adjustment of those fearing a price freeze.

There is evidence of considerable overshooting in the implementation of credit limits: the real volume of credit to the industrial sector fell 30 percent at the end of the first semester of 1963. This certainly helped to fuel the choir of criticisms initially raised by many of João Goulart's allies in the extreme left. The *Plano Trienal* was criticised as a capitulation of the government to conditions established by the International Monetary Fund, which had sent a mission to Brazil early in the year. To the political troubles aggravated by

overshooting must be added the consequences of San Tiago Dantas' failure in his visit to Washington to negotiate another reschedule of the foreign debt. In spite of Brazilian concessions concerning the expropriation of the AMFORP utilities, only US\$84 million of the US\$398 million of loans obtained by San Tiago Dantas was to be immediately available and even then US\$30 million were to compensate ITT. Political decisions in May 1963 irreversibly undermined the stabilisation objectives as the civil service pay raise was set at 60 percent, and not the 40 percent agreed with the IMF. The minimum wage was increased by 56.25 percent. Wheat and fuel subsidies were reintroduced.

From mid-1963 economic policy was beyond the control of Federal authorities. A ministerial reform substituted Dantas as Minister of Finance and scrapped the Planning Ministry. Goulart tried to appease widespread criticism of his government among the *classes produtoras* by choosing a conservative *paulista*, Carlos Alberto Carvalho Pinto, as the new finance minister. But the reaction of the more radical wing of his political supporters was strident as it had been in their denunciation of the *Plano Trienal*. Administrative instability resulted from the fragmentation of political resources originating in the frontal clash between populism and its opponents, and a broad conservative coalition rapidly gained adherents. Roberto Campos' decision to ask for his substitution as the Brazilian Ambassador in Washington heralded the end of the period of guarded cooperation between Goulart and conservative leaders which could assure him of some support outside his power basis in the trade unions and the left-wing parties. The lack of control on public expenditure deepened after the middle of the year. Monthly inflation rates rapidly returned and exceeded the levels reached before the *Plano Trienal*. The balance of payments position deteriorated further in spite of some recovery of exports as coffee prices increased 60 percent. Required purchases of import bills were substantially increased, especially in the second semester of 1963, reflecting growing uncertainty. On a year to year basis the real exchange rate appreciated almost 14 percent in 1963.

Goulart's obvious lack of a credible economic programme is best exemplified by his appointment of an obscure *gaúcho* politician as a substitute of Carvalho Pinto in the end of 1963. Goulart also finally agreed that the law on remittances of profits by foreign firms was approved. The demand for structural reforms, on the other hand, gained political weight although there was an almost total absence of explicit economic evaluation of their costs and benefits. Attention was centred on the proposed take over of

private oil refineries whose establishment preceded the creation of Petrobras, which can hardly be considered a structural reform, and, quite generically, on land reform. Political difficulties with the military, and agitation around the structural reforms, fed the conspiracy against the government which had initially been restricted to certain groups defeated in their intent to deliver a coup in the crisis of 1961 and had gained strength after the 1962 elections. The military coup which followed on 31 March–1 April had considerable political support from most political parties as well as from landowners, industrialists and the middle class.

During the twenty years from 1942 to 1962 GDP per capita had only decreased in 1956, and even so very marginally. In 1963, GDP growth was only 0.6 percent: a fall of 0.2 percent in industrial output coincided with agricultural output growth of only 1 percent. Recession hit hardest exactly in those sectors that had led the previous boom. Output fell by 10.7 percent in transport equipment and 3.8 percent in electrical equipment industries. It fell modestly even in the wage goods sectors. There was a drop in the rate of growth of food production in the early 1960s in comparison with the second half of the 1950s. But it still remained above population growth in the case of most products with the exception of beef and maize. In per capita terms GDP contracted 2.3 percent in 1963. It is difficult to overstate the political significance of such a break of an extremely good continuous growth record.

The reasons which explain such a decline in growth were the subject of intense controversy. The whole picture is confused by the fact that national accounts data indicate a hefty rise in investment even in 1963. According to such data, fixed capital formation in 1963, at 17 percent of GDP, had been only exceeded since 1947 in the golden year of 1959. Data on sectoral data fail to pick up this reversal in the new trend lower investment ratios first shown in 1961. Possible explanations could include the inability of the Federal government to impose rational cuts in its investment programs so that fixed proportional cuts affected similarly all projects whatever their initial marginal efficiency of capital. Large investments did not necessarily mean a similarly large expansion of productive capacity given the postponement entailed by cuts in available resources. An alternative, less convincing, reason, at least for this period, is that import substitution deepening tended to increase the cost of inputs and capital goods so that investment became relatively more expensive.

Explanations of a structural nature underline the importance of the exhaustion of import substitution as a process able to assure high growth

of manufacturing industrial output. Given that the initial size of plants installed in answer to incentives under Kubitschek exceeded the capacity of Brazilian markets to absorb their output, it was to be expected that the first wave of investments could not be sustained. The deepening of import-substitution, moreover, meant that, as new sectors were affected, the relevant marginal capital–output ratio increased and contributed to reduce growth potential. Another line of structural reasoning stressed the lack of compatibility between the newly structure of supply and effective demand related to the very concentrated income distribution. This latter explanation was disposed of by the very high rates of growth achieved during the boom period after 1967 based on a dramatic expansion of credit for consumer durable purchases.

Alternative explanations stress the impact of the extremely contractionary short-term macroeconomic policy adopted in the first few months of 1963 on the level of industrial output as well of investment. There is no doubt that liquidity tightening in early 1963 strongly affected the performance of sectors producing durable consumer goods. But the link between the squeeze under the *Plano Trienal* and the fall in investment, which is in any case rather difficult to measure, given the poor national accounts data, fails to take into account the expected lags between fall in output and fall in investment. Based on the available evidence it seems reasonable to explain the fall in the level of activity as resulting from the combination of both structural and short-term or mid-term policies.

The end of the twenty-year long economic boom in 1963 and the acceleration of inflation which reached rates approaching 100 percent yearly added fuel to the political instability which had been increasing since Goulart took office in 1961. This deterioration in economic performance is a vital element in the explanation of the successful mobilisation of political support for the 1964 military coup. Goulart was unable to regain the political initiative following the early 1963 referendum that restored the presidential regime. Important segments of the military started to conspire against what was seen as a dangerous left-wing government increasingly out of control. A military coup on 31 March–1 April 1964 removed Goulart from the presidency and initiated a period of military rule which would last for twenty-one years.

The economic record of the Third Republic (1946–1964) was dominated by the achievement of fast and sustained growth of GDP. Industry substantially increased its importance in output by displacing agriculture, especially in

the 1950s. The extreme disparities between productivity in industry and the other sectors of the economy increased, as the expansion of industrial output was not matched by the creation of a sufficiently large number of industrial jobs. But the performance of the food-producing agricultural sector was far from mediocre in the 1950s, and even in the early 1960s. There were also important changes in the structure of industrial output itself as there was much more rapid expansion of sectors producing durable consumer goods and industrial inputs, and to a lesser extent, capital goods than of those wage good sectors which had led industrial output growth in the 1930s and in the 1940s. There is more continuity between the Dutra, Vargas (to a lesser extent), Café Filho, and Kubitschek administrations than is usually admitted. Growth was faster and import substitution affected increasingly more sophisticated branches of industry in the Kubitschek period. But the trend was there since the presidency of Dutra.

Modernisation of the productive structure notwithstanding Brazil remained an exporter of commodities and mostly of coffee. Export diversification had no place in the government's agenda. In fact, one of the most impressive features of economic policy in the second half of the 1950 is the continued importance of expenditures to support coffee prices. The coffee wedge between average import and export exchange rates may have existed to extract income from coffee growers, but a sizeable part of this was returned through transfers to the coffee sector, either purchasing surplus stocks or providing a stimulus to the destruction of older, less productive, coffee trees.

What made it possible to achieve and sustain this path of high growth was the combination of an initially stabilisation-induced overvaluation of the exchange with import control, assuring absolute protection essential to foster import substitution, followed by the expedient of using the multiple exchange regime to provide powerful subsidies to attract foreign capital to the Brazilian market. The government also used generously other subsidies, such as those on credit, and fiscal rebates of various kinds to implement its industrial policy. An additional crucial feature of the policy was that the Brazilian market would remain for all purposes closed so that the output of foreign firms allowed to invest in Brazil would not face competition from imports. There was a vicious circle in action. The balance of payments constraints stimulated the adoption of policies based on heavy subsidisation of domestic production which depended crucially on closing up the market. Domestic industrial production was not competitive in international markets so exports tended to depend exclusively on commodities.

Evaluation of such policies crucially depends on the time span which is used as reference. If evaluation is restricted to period when import-substitution took place the assessment tends to be favourable as the growth record tends to dominate the picture. But in a long-term perspective such industrialisation spurts had a cost which was that generally they were not accompanied by sound macroeconomic policy. Although this was already evident in the later period of Dutra's administration, and even more of the Vargas administration, it became particularly clear under Kubitschek, and reached a climax under Goulart. Growth was faster until 1961, but partly because of a sharp deterioration in the accepted standards of sustainable macro-economic policy. Political calculation became an extremely short-sighted exercise when applied to the economic field. The concept that the economic inheritance which was left to the successor should be at least reasonable carried no weight. The repeated failure of stabilisation efforts, generally implemented in the first half of terms of office, resulted more from the persistent fiscal imbalances and the lack of agreement to put their redressing high in the political priority list than on structural sources, such as stagnant food supply or sectoral market power.

Rent-seeking which had been concentrated in coffee and tariff policies during the Old Republic had been diversified in the 1930s to cover opportunities opened by the operation of multiple exchange rate regimes. In the last years of Second World War relatively high inflation, combined with the usury law, enhanced the importance of access to public credit, particularly long-term credit, as an important alternative to extract resources from the State. All these rent-extraction mechanisms were preserved from the late 1940s to the early 1960s with the multiple exchange rate regimes offering new implicit subsidy opportunities as exemplified by the advantages favouring foreign direct investment through SUMOC's *Instrução 113*. During part of the period the role played by the high tariff in providing an umbrella for domestic producers to generate high profits, or to be very inefficient, or both, was played entirely by the exchange rate system as the specific tariff was eroded by inflation until the schedule became based on *ad valorem* duties in 1957. The discretionary power in the distribution of incentives tended to be exerted in a less centralised way than in the past as there was strong private sector representation in the sectorally organised *grupos executivos*.

By the second half of the 1950s distortions were affecting resource allocation in extremely complex forms. It is to be doubted whether the government had a very precise idea of the joint impact of so many instruments

used at the same time. The foreign exchange wedge between average import and export exchange rates was at work. Special provisions favoured foreign investment. A high tariff still prevailed with the government strengthening its grasp on the right of establishment of foreign firms in the Brazilian market. In some cases, such as banking and insurance, the government could and would block the entry of new players. Alternatively, by denying subsidies to more than a limited number of previously selected firms, the government could make unprofitable the entry of new competitors into the market for many industrial goods. The activities of many public-owned suppliers of public services such as railway transportation and shipping depended on massive subsidisation. The coffee sector was also being subsidised directly and indirectly to counter the effects of the collapse of coffee prices. The fiscal burden became impossible to bear: there were too many sectors demanding and obtaining resources from the State. The inability to choose between conflictive targets was increasingly to become a feature which determined economic policy under the Third Republic. In the last couple of years this shortcoming entirely dominated the economic and political scenes.

The campaign for structural reforms singled out land reform as requiring the special attention of the government. But this was too narrow a view of the limitations of growth policies adopted until then. Very rapid economic growth had been accompanied by only a rather slow improvement in the living conditions of the poor. Faster growth meant more rapid improvement of social indicators in the 1950s than in the past. But even with high growth, employment opportunities increased at a much slower pace.

The government became belatedly aware of the very uneven regional distribution of the benefits of growth but this was in part a result of its own strategy. It is difficult to exaggerate the importance of decisions during Kubitschek's term of office to define the characteristics of the future economic structure of the Brazilian economy and consequently the type of problems it would face in the future. In a planning effort that was not known for internal consistency there was a clear concentration of inducements for the creation of an important automotive sector and in complementary investments enhancing road infrastructure and oil refining capacity. Expansion of the output of transport equipment was initially presented as essentially an effort to substitute imports of trucks and commercial vehicles but the seeds of an economy whose performance would depend on the diffusion of consumer durables, and especially of motor cars, were clearly there.

THE BRAZILIAN ECONOMY, 1964–1980

Stabilisation and Reform, 1964–1967

The core of economic strategy under President Humberto Castelo Branco, the first of five generals who would govern Brazil from April 1964 to March 1985, was monetary stabilisation. But the central role played by stabilisation targets in the short- to mid-term still allowed room for a major effort in designing and implementing a vast programme of economic reforms. This effort took advantage of the removal of many political constraints faced under the Third Republic after the military coup in 1964: trade unions were put under intervention, congressmen lost their mandates, opposition was sharply curtailed with many losing their political rights, and torture would become common especially after 1968. A new Ministry of Planning, headed by Roberto Campos, played the crucial role in the stabilisation and economic reform efforts under Castelo Branco with support from the Ministry of Finance, headed by Octávio Bulhões. It was a return to power of the group of civil servants which had been repeatedly defeated in their attempts to counter what they saw as the economic policies of populism during the Third Republic and now had the opportunity to implement their ideas with support of the military.

A Programa de Ação Econômica do Governo [Government Program of Economic Action] was prepared during 1964 under the coordination of Campos. It included a mixture of objectives some of which seem to have been justified basically by political expedience. With the benefit of hindsight the important objectives were those related to economic growth, progressive reduction of inflation and equilibrium of the balance-of-payments. More akin to a lipservice category were the reduction of sectoral and regional disparities – this was supposed to deal with the land ownership issue – and also the expansion in employment. A wide range of policies would be used to make sure that these objectives were attained: financial policies – including public deficit reduction, tax, banking, and public investment policies – international economic policies, such as those on the foreign exchange, foreign debt and foreign investment, and policies which were baptised as of social productivity. This euphemism referred to policies which assured at the same time that workers benefited from development and allowed the ‘synchronisation’ of anti-inflationary policies.

The official explanation for the Brazilian inflation was far from orthodox. Some comments on cost inflation notwithstanding, the Brazilian

inflation was deemed to result from an inconsistent distributive policy which involved disequilibrium between government expenditure and revenue and a lack of compatibility between the propensity to consume which resulted from the wage policy and the propensity to invest which resulted from credit policies. Inflation was essentially a problem of excessive demand originating in public deficits, permissive expansion of credit and wage settlements above productivity trends. Lax monetary policies only helped to propagate such inflationary pressures. Targets for monetary expansion in 1964–1966 were of 70 percent, 30 percent and 15 percent which implied inflation rates of 25 percent in 1965 and 10 percent in 1966. These were not attained but the stabilisation results were impressive. The Campos–Bulhões stabilisation programme would mark the first major successful stabilisation effort since the restrictive policies of Joaquim Murtinho during the government of Campos Salles in 1898–1902. Criticism of the *PAEG* was, of course, muzzled and the little that was made public at the time was very much restricted to the point of view of Brazilian businessmen. Besides complaints about the impact of credit restriction on the level of activity the points singled out for criticism were mainly related to issues such as liberalisation of the Brazilian market to foreign competition and the planned reduction in the role of the government.

In 1964 the inflation rate reached its peak in the 1960s with wholesale prices increasing 91.8 percent. The annual inflation rate fell to 65 percent in 1965 and 41 percent in 1966. In 1967, the inflation rate as measured by consumer prices in Rio de Janeiro was down to 30.4 percent. Although there should be no doubt that the stabilisation policies between 1964 and 1967 were at times less gradual than the policies adopted after March 1967, when the stabilisation effort became explicitly constrained by growth objectives, the evidence makes it difficult to classify the stabilisation policies under Castelo Branco as shock policies.

The persistence of inflation in 1964 reflected the impact of ‘corrective’ inflation, that is, the cumulative impact of foreign exchange devaluation, a pay increase for public servants, and an increase in the minimum wage and in public prices as part of an effort to correct relative prices. The government adopted a fiscal stance which led to the monotonic fall in the deficit: from 3.8 percent of GDP in 1963 to 2.9 percent in 1964, 1.4 percent in 1965 and 0.9 percent in 1966. Revenue increased due to increased tax rates, new taxes and improvement in tax collection. An emergency tax reform in 1964 raised excise and stamp tax rates, as well as duties on fuel products, and introduced income tax collection on a pay-as-you-go basis.

Although new legislation allowed the correction of the value of assets to take account of inflation some income tax had to be paid on this revaluation. A Constitutional amendment in the end of 1965 transformed both the Federal excise tax (*imposto de consumo*) and the state sales tax (*imposto sobre vendas e consignações*) into value added-based taxes renamed Federal *imposto sobre produtos industrializados* and state *imposto sobre circulação de mercadorias*, avoiding the previous cascading effect which would result in taxing more firms which were not vertically integrated. New taxes were created or overhauled: on services (*imposto sobre serviços*), electricity (*imposto único sobre energia elétrica*), minerals (*imposto único sobre minerais*) and fuels (*imposto único sobre combustíveis e lubrificantes*).

The tax burden increased from 18 percent in 1963 to 24.1 percent in 1966. There was a modest decline in the importance of income tax in total tax revenue. Revenue policy was also flexible as shown by the temporary reduction in June 1965 of taxation on motor cars, household electric appliances and textiles to face the fall in industrial output. Seignorage, the net revenue derived from issuing currency, which of course rises with inflation, declined with the fall of inflation after 1964, but remained in the 3–4 percent of GDP range in 1965–1967.

Government efforts to control expenditure were especially targeted to reduce the substantial deficits in the operation by public enterprises providing railway, shipping and postal services. Indeed, rehabilitation of the postal services over the long-term was emblematic of the successful side of the effort to modernise the public sector. This was perhaps the most spectacular demonstration of the virtues of efficient state intervention as the postal services were rescued from utter demoralisation to become rather efficient and one of the most prestigious institutions in the eyes of the Brazilian public.

In spite of the contraction in total expenditure public investment, including Federal state enterprises, increased in 1965 and fell modestly in 1966 so that most of the expenditure cuts affected current expenses. Tight limits were imposed on the capacity of Congress to create expenditure. Expenditure by states and municipalities were brought under centralised ‘coordination’, with the explicit objective of avoiding competition when seeking to attract investments. Not only the deficit declined but it was increasingly financed by sales of government paper which was, after some compulsory initial sales, voluntarily purchased by investors. The introduction of monetary correction – correction for the effects of inflation – opened the way for the separation of the real return of financial placements from nominal

returns which included a purely inflationary element and for the indexation of debts to price indices. The usury law had been finally circumvented. By 1966, the whole government deficit was financed by the sale of government paper.

Credit policies were flexible, being adjusted according to the level of activity. During 1964 they were restrictive at least until the second quarter of 1965, and extremely so in the end of 1964, then until the first quarter of 1966 there was a substantial rise in credit to the private sector which reached a peak by the end of 1965. Countercyclical policies included the provision of subsidised credit through Caixa Econômica to finance motor car sales coupled with temporary tax cuts. Then another credit squeeze took place which marked the end of the first quarter of 1967, coinciding with the end of the first military government. Monetary policy followed the same upturns and downturns of credit policy. The downturns in industrial activity in 1965 and 1967 were in line with the contraction of credit and monetary policies. The upturn of 1966 followed the relaxation of such squeeze in the second semester of 1965. There was a clear increasing trend of real credit after a long period of contraction in the 1950s and in the early 1960s. In 1964 real total credit fell 10 percent but then it increased continuously: 8.2 percent in 1965, 10.7 percent in 1966, and increased even more after 1967.

From 1965 the official wage policy was extended to all levels of public administration as well as to the private sector. The bargaining power of trade unions was seriously undermined as political repression mounted and their right to strike was a dead letter. A standard formula to compute wage readjustments was compulsorily adopted. It aimed at recovering the real wage level of the twenty-four months prior to the date of readjustment and allowed for an 'inflationary residual' to take future inflation into account. Given the importance of such a 'residual' in the formation of inflationary expectations it is not surprising that it was always underestimated. The real minimum wage fell 7 percent both in 1965 and 1966 and a little less in 1967. It is not totally clear to what extent the average real wage followed the minimum real wage in its fall but there is some evidence that there was a fall in the real average wage between 1964 and 1967. In 1964–1967 the government concentrated the flexibility of its policies on adjustments of the credit and monetary policies, and to a much lesser extent, the fiscal policies. The wage policy designed in 1964 was applied without any flexible component.

From the point of view of growth Castelo Branco's administration was less unsatisfactory than contemporary comments and perceptions

suggested. Perhaps the very good previous performance from 1942 to 1962 contributed to an inflation of growth expectations at the time. The economy roughly stagnated on a GDP per capita basis in 1964–1965. In 1964, another bad crop was compensated by industry growing 5 percent so that GDP increased 3.4 percent. In 1965, in spite of an extremely good crop, with output rising 12.1 percent, GDP increased only 2.2 percent as there was a serious industrial recession with output falling 4.7 percent. Even with a disastrous crop in 1966, GDP increased 6.7 percent, reflecting an 11.7 percent rise in industrial output. The industrial recovery of 1966 was reversed in 1967 with another tightening of credit and monetary policies, but GDP growth remained reasonable at 4.2 percent. In fact, 1965 was to be the last year marked by a contraction in GDP per capita before the long period of stagnation which began in the early 1980s.

Balance of payments constraints which had been important under Goulart were rapidly removed after March 1964. This was due to a combination of factors affecting both the current and the capital account. An important element of many criticisms of pre-1964 government policies was the excessive emphasis on the domestic market and particularly the lack of incentives to increase and diversify exports. The multiple foreign exchange regime for industrial goods which still persisted, although much simplified, was slowly substituted by a system nominally based on a single exchange rate nearly ten years after this had been controversially proposed by the International Monetary Fund to President João Café Filho. But coffee exports were still taxed by a variable contribution quota of 53–57 percent in 1964–1967. In 1964 on average the effective exchange rate was depreciated 16.3 percent in relation to 1963, but very little in relation to 1962. It was further devalued on average by 2.5 percent in 1965. After 1965, however, there was a substantial appreciation of real exchange rate which was in 1967 back to its 1963 level.

The single foreign exchange rate was still based on a pegged rate. After a series of devaluations in 1964 and until a new crawling-peg exchange regime was introduced in August 1968 devaluations were few and far between, generally only once a year. With the inflation rate slowly falling to a level still around 40 percent in 1967 fluctuations in the level of the real exchange rate created important distortions. The rational behaviour of sellers and buyers of foreign exchange created significant leads and lags that affected decisions concerning sales and purchases of foreign exchange.

Much emphasis was placed on the promotion of exports. Reforms made possible to export without paying indirect taxes such as the consumption

tax (renamed tax on industrial products) or the tax collected by the states on the circulation of goods (formerly sales and consignment tax). Some export incentives, such as income tax rebates, which were illegal according to General Agreement on Tariffs and Trade's rules, started to be introduced, but it was only after 1967, under General Arthur da Costa e Silva, the second president under the military regime, that discretionary export incentives became really important. Export taxes still used by some states were abolished. A drawback regime which allowed imports of inputs with exemption of duties was created and bureaucratic requirements were reduced.

By 1965 prior import deposits and financial import surcharges had disappeared. The number of goods classified as special category imports was reduced and more exchange cover was allotted to such imports. A liberalising import tariff reform was introduced at the very end of Castelo Branco's period and the special category of imports was abolished. Average protection for manufactures was reduced from 99 percent to 48 percent. But these numbers are badly affected by tariff redundancy so they may exaggerate the extent of liberalisation. The timing of the tariff reform was perhaps an indication of a weaker commitment to opening up the Brazilian market to foreign goods as opposed to other policies which also targeted an increase in the country's 'outwardness'.

Export performance was good in 1964–1965, with export values growing at 7.3 percent yearly. It was helped by an increase in export prices in 1964 of 18.5 percent. By 1966 exports had almost reached their previous peak of 1951. This performance is better explained by vent for surplus – that is, by the inducement to export provoked by the availability of idle capacity – than by any substantial and sustained improvement in price incentives. Exports fell in 1967 and then started to increase very rapidly in the wake of the international boom and the sharp increase in export subsidies. Exports of manufactures (*Nomenclatura Brasileira de Mercadorias* Classes 5–8) increased from 2.7 percent of total exports on average in 1961–1963 (US\$36 million) to 6.2 percent in 1965–1966. Imports fell dramatically in 1964–1965 to a value similar to that of 1950 and about 30 percent below the roughly constant values of 1961–1963. The sizeable trade surpluses of 1964–1967 made it possible to deal with pending foreign short-term liabilities and also provided room for liberalising reforms in trade and foreign exchange policies. But they also became a source of pressure for monetisation requiring monetary policy compensatory policies.

Developments in the capital account were also favourable. A significant improvement in the relations with the IMF, the World Bank and the

USAID followed the fall of João Goulart. About a third of the foreign debt was due in 1964 so a new rescheduling of foreign debt service was negotiated by August 1964 with United States and European banks rolling over 70 percent of service falling due in 1964–1965. New loans started to flow after 1964, especially from USAID. Between 1964 and 1967, Brazil was the fourth recipient of USAID funds after India, Pakistan and South Vietnam. There was a clear policy of attracting direct foreign investment. The constraints to reinvestment of profits and the limit of 10 percent of profit remittances by foreign firms which had been imposed under João Goulart were revoked in August 1964. An agreement to guarantee investments was signed with the United States in February 1965 assuring fair compensation to U.S. citizens in case of expropriation of their assets. Instruction 289 of SUMOC allowed financial operations between foreign firms and their subsidiaries in Brazil to finance circulating capital. This was later modified to cover also borrowing by Brazilian firms. But the recovery of autonomous capital flows took a long time: direct investment flows returned to late 1950s levels only in 1969 and only in 1968 loans and credits exceeded their 1961 level.

A pillar of the reform of the financial system involved the creation in the end of 1964 of a Central Bank replacing SUMOC, which marked the beginning of a long process of transition towards a clear definition of attributions between the Bank of Brazil, the Treasury and the Central Bank. The main difficulty was the hybrid role of the Bank of Brazil as the government's banker and as the most important commercial bank. A monetary budget (*orçamento monetário*) was created as a consolidated balance sheet of the monetary authorities and the Federal-owned commercial banks. In principle it should impose ceilings on Bank of Brazil credits. But a loophole continued to exist as a Bank of Brazil account with the Central Bank which should be settled on a weekly basis was allowed to remain unpaid. By 1966 the balance of Bank of Brazil's debt in this account was equivalent to 5.7 percent of the monetary base.

Monetary correction, building up on previous legislation, was introduced quite early and, as mentioned, was essential to public deficit finance as the government could again sell Federal financial paper in the market. The possibility of price indexation to cope with inflation served initially as a powerful instrument to correct some of the distortions created by persistent inflation since at least the middle of the Second World War. It made possible to abolish rent controls, reduced losses in tax collection, allowed firms to adopt inflation-proof accounting methods, reduced the scope for illusory profits generated by inflation, was closely linked to the

fast growth of savings accounts and to the creation of a housing financing system from scratch. It took a long time to perceive that the widespread use of indexation rules created inflationary inertia. Monetary correction after being lauded as a panacea in the 1960s, including a famous endorsement by Milton Friedman, came to be recognised as one the major factors to explain persistent high inflation in the 1980s and early 1990s.

A law of capital market reform was approved in mid-1965 profoundly reshaping the private financial sector. Its basic objective was to expand the supply of long-term funds. So although short-term credit was to be provided by commercial banks, medium-term credit would be offered by newly created financial houses (*financeiras*) and investment banks, and long-term funding by public offer of shares and debentures in the stock exchanges.

Financeiras had increased very rapidly in terms of amount of loans, mainly for consumer durable purchases, in relation to commercial banks. Being almost non-existent in 1959 their end of year balance of loans was around 8–9 percent that of the commercial banks in 1962–1963 but reached more than 31 percent in 1965–1966. In 1967 as a result of the creation of investment banks there was a contraction but in 1968 this was more than 40 percent. Their main source of funds was ‘bills of exchange’, which were accepted by *financeiras* and sold to clients. Investment banks which had been thought as a Brazilian version of British merchant banks to be heavily involved in underwriting operations, and able to build up technical capacity to offer technical advice on long-term funding to firms, ended up by trying to compete with *financeiras* and never were a success.

A new housing financial system was created. No mortgage market existed in Brazil given the application of the usury law. In the 1930s and 1940s social security institutions had given away a sizeable part of their assets as a result of mortgages without inflation-indexed clauses. Building had been also adversely affected by rent control. The *Sistema Financeiro da Habitação* [National Housing System] while initially concerned with popular housing was reoriented to cope with the market for middle class housing. Resources were raised through inflation-indexed savings accounts and deposits of the new unemployment insurance fund. Loans were to be also inflation-indexed. The share of the Bank of Brazil in total financial system outstanding loans fell from 42–43 percent in 1964 to 30–31 percent in 1965–1966 and 23.4 percent in 1967. Although the shares of other public financial intermediaries such as BNDE-Finame and *Banco Nacional da Habitação*-BNH (National Housing Bank) rose – to 4.7 percent and 2.3

percent, respectively – there was clearly an important reduction in public credit between 1963 and 1967.

Military rule clearly marked a reversal of the decentralisation trend established by the 1946 Constitution. Decision-making was centralised. Government machinery had deteriorated since the days of Kubitschek. Improvement in the decision-making process and implementation of economic policy depended on its overhaul. This was initially done piecemeal. Then it was consolidated in several ways: the number of state enterprises was much increased and administrative flexibility was improved by Decree Law 200 which allowed a much increased scope for the activities of government foundations. There was a build-up of the new government machinery including planning institutions, ironically as a result of pressure by USAID. The influence of the military was much increased in most institutions: the massive presence of retired officers became a standard feature of Brazilian state-owned enterprises until the mid-1980s.

The brand of liberalism which prevailed after the military coup was rather peculiar even in 1964–1967. Indeed, one of the most important elements of continuity in relation to the Third Republic was the continued strategic role of the State both in a normative role and also in the direct provision of goods and services. The share of state investment in total investment remained high but accurate numbers are not available. In 1965, government investment including government enterprises had risen to 46.4 percent of total investment compared to 37.5 percent in 1961–1963. It can be argued that because so much had to be invested in the dilapidated infrastructure, especially in electricity and telecommunications, and because there was no possible interest from foreign investors, the government had no alternative but to take the lead. And it is true that much was done to cut the costs and improve the notoriously bad services provided by public-owned railways and shipping companies. But the argument is less persuasive in the case of other sectors going from shipping to steel and insurance. In spite of much self-congratulation the work of reformers was timid. Perhaps the provision of credit is one of the few activities in which a contraction in the importance of state institutions can be shown.

The period marked the beginning of a new wave in the proliferation of state enterprises of which *Eletrobrás*, which became active as the government's electricity holding, and the new telecommunications state-owned *Empresa Brasileira de Telecomunicações-Embratel* [Brazilian Telecommunication Enterprise], were the most important. Export policy was

to be coordinated by a *Conselho Nacional de Comércio Exterior-Concex* [National Council for Foreign Trade].

Pre-1964 legislation on job security was peculiarly lacking in flexibility as job stability was assured after ten years with the same employer. To fire a stable worker after ten years involved an elaborate legal process and a heavy penalty. It became a generalised practice to fire workers before they completed the ten-year period so as to avoid the high costs of firing. On the other hand, if a stable worker retired while in a stable job he would be treated exactly as any other worker and receive no compensation. New legislation aimed at introducing more flexibility in the labour market created a *Fundo de Garantia de Tempo de Serviço* [literally, the Length of Service Guarantee Fund]: monthly deposits were made in an earmarked account whose funds could only be released in case the worker was fired, married, died or decided to establish his own business. An additional payment corresponding to 10 percent of the total outstanding fund was to be paid by the employer in case the loss of his job resulted from the employer's initiative. There was in principle the possibility of choosing between the old and the new systems, but in practice it was impossible to choose the old system.

The programme of reforms carried out by the Castelo Branco administration was impressive. But, it should be remembered, there were very weak political constraints limiting the efforts of reformers compared with other periods when political obstacles frequently undermined the good intention of reformers. And the implemented programme of reforms was not comprehensive enough. In spite of lipservice in favour of a reduction in the extent of direct state intervention and the end of discretionary policies based on the whims of state bureaucracy, what was seen was the extension both of the role of the state and of the scope for discretionary distribution of benefits. To open up the economy was understood as primarily reversing the former antiexport bias and adopting policies to attract direct foreign investment. Because such investment had been traditionally attracted by the high profits made possible by high protection against imports there was an internal contradiction in the project to internationalise the economy. Although there were important developments concerning protection, such as the abolition of special category of imports and prior deposits, the commitment to reduce import tariffs was not placed in a very high position in the government's reform list and its timing showed it.

Perhaps even more serious, the social aspect was almost completely neglected by the reform programme. Land reform, which had emerged perhaps not entirely reasonably, as a major issue in the Goulart years, did

not receive a serious treatment. The rather toothless Land Statute (Law 4505 of November 30, 1964) was barely more than a declaration of intentions on the need to raise agricultural productivity. It does not seem extreme to speak of utter failure. Although it is difficult to pinpoint the 1964–1967 period from the point of view of progress of social indicators the 1960s as a whole were marked by a significant slowing down of the speed of improvement as will be seen in the next section.

Little progress was made in 1964–1967 in relation to the avowed policy objective to reduce the share of revenue which was earmarked for specific purposes. In fact the government made use of policies to foster development based on tax expenditures which had been inherited from the pre-1964 period, especially those related to regional development in the Northeast. This paved the way for the wholesale adoption of such policies after March 1967 in a firm commitment to a strategy based on state intervention aiming to direct the private sector. Regional policies failed to dampen the sharp regional disparities as tax expenditures basically fostered the transfer of capital intensive projects to less efficient locations and were not able to create a significant number of well paid jobs. In the twilight of the Castelo Branco government the notorious *Zona Franca de Manaus* (Manaus Free Zone) was created, allegedly as part of an effort to develop the Amazon region.

Years of High Growth, 1967–1974

Castelo Branco's substitution by General Artur da Costa e Silva in March 1967 had important consequences for economic policy. New policies were introduced and their continuation was assured after Costa e Silva was substituted by General Emílio Garrastazu Médici in 1969. The emphasis on the control of inflation was replaced by the much more popular stress on the return to the path of high growth. The new Minister of Finance, Antônio Delfim Neto, proposed a radically different analysis of the causes of persistent inflation. It was not caused by excess demand – thus having to be faced by credit and public expenditure controls as well as a wage squeeze – but rather by cost pressures. These originated in the increased cost of credit due to its scarcity and on the increased costs entailed by lower rates of capacity utilisation induced by slow growth. More credit would reduce financial costs. More rapid growth would allow economies of scale to be fully reaped and unit costs reduced. Price controls which had been noncompulsory under Campos-Bulhões became compulsory and had an important role in the process of slowly reducing inflation.

The relatively modest growth of GDP of 4.2 percent in 1967 still reflected the squeeze on credit imposed towards the end of 1966 as industrial output increased only 2.2 percent. About 50 percent of the public deficit was still financed by the monetary authorities but towards the end of the year the new policies started to be effective. Real credit which had increased 8–10 percent yearly in 1965–1966 expanded 40.4 percent in 1967. Between 1967 and 1973 total real credit increased at 31.9 percent annually while the share of credit advanced by the monetary sector shrank from 74.3 percent to 50 percent of total credit.

Although real interest rates were generally positive, the government induced the concentration of credit in agriculture and export activities through direct interest rate controls and differentiated rules on compulsory deposits in the Central Bank. In addition, credits to such sectors or activities were advanced by official banks. Negative real interest rates for agriculture credit were in the region of 6 percent per annum. The government also actively promoted banking mergers in an attempt to foster increased efficiency and reduced banking spreads. Efforts to enhance the role of stock exchanges in the process of raising long-term capital were marred by the burst of a speculative bubble in 1971 and the consequent loss of confidence by the public. Fiscal incentives to purchasers of stocks became an important element of government policy in a long-term bail-out operation which, once again, disguised a substantial transfer of resources from the public sector to the banking system.

Another indication of the changed stance on monetary policy was that the negative balance of the *conta de movimento* of the Bank of Brazil with the Central Bank increased from 5.7 percent of the monetary base in 1966 to 13.1 percent in 1967 and 21 percent in 1968. There was a large increase in the importance of the nonmonetary financial system: BNDE, Caixa Econômica Federal, Banco Nacional da Habitação, financing societies. But the share of the Bank of Brazil in total loans fell from 25.3 percent in 1967 to 19 percent in 1973. While the ratio of monetary assets to GDP increased from 30 percent in the mid-1960s to 50 percent in the 1970s, the same ratio for non-monetary assets increased from 7 percent in 1967 to 25 percent in 1973. The increase in nonmonetary financial assets resulted from the expansion in holdings of traditional instruments such as *letras de câmbio* and new ones such as savings accounts and government debt. Government debt, which was negligible in 1964, corresponded in 1970 to 15 percent of the total financial assets and 17.7 percent in 1973 evenly divided between *Obrigações Reajustáveis do Tesouro*

Nacional (ORTN) [Readjustable National Treasury Obligations and *Letras do Tesouro Nacional*-(LTN) [National Treasury Bills]. These were the papers used to undertake open market operations. ORTNs were long-term paper with interest rates fixed *ex ante* but they exchanged hands together with a *n*-day repurchase letter which made them liquid in the short-term. LTNs were short-term with *ex post* interest being paid.

A new tax on financial operations (*imposto sobre operações financeiras*) was created by the 1967 Constitution which partly substituted the old stamp tax (*imposto de selo*). The tax burden increased modestly to reach 24.7 percent of GDP on average in 1970–1973 (16.6 percent net of transfers and subsidies). Seignorage slowly declined and stayed a little above 2 percent of GDP in 1969–1973.

Revenue was eroded by tax expenditure and import duty draw back schemes as well as by less conventional fiscal instruments. There was widespread use of tax exemptions affecting mainly import duties and excise taxes. Specific industrial projects were selected for preferential treatment by a *Conselho de Investimento Industrial* (CDI) [Industrial Development Council]. A significant program of export promotion, *Comissão para Concessão de Benefícios Fiscais e Programas Especiais de Exportação* (BEFIEIX) [Special Program of Fiscal Incentives for Exports] based on the concession of import tax rebates depending on export-performance was created in 1972. Income tax rebates were directed to a number of regional and sectoral programmes. The list increased rapidly: SUDAM (for the Amazon region), SUDENE (Northeast), *Instituto Brasileiro de Desenvolvimento Florestal* (IBDF) (reforestation), SUDEPE (fisheries), EMBRATUR (tourism), the state of Espírito Santo, *Banco do Nordeste do Brasil* [Northeast of Brazil Bank], *Banco da Amazonia*, *Programa de Integração Nacional* [National Integration Programme], PROTERRA [land distribution], EMBRAER (aeronautical industry), stock funds and MOBREAL (adult education). So many priorities meant, of course, no real priority. The economic return of such a diversion of public funds was, with very few exceptions, negligible.

Deficit reduction resulted from further cuts in current expenditure at all levels of government. Expenses with the payroll of Federal civil servants fell from 32 percent of total expenditures in 1963–1964 to 24.6 percent in 1966 and 18 percent in the early 1970s. Transfers to public-owned transport operators were roughly halved as a share of total expenditure between 1963–1964 and the early 1970s. The share of states and municipalities in the main Federal taxes was reduced from 20 percent to 10 percent in the end of 1968

and a special fund of 2 percent of such revenues to cope with the demands of the poorest states and municipalities was created. After 1968 the decreasing deficit was totally financed by public debt paper. Public sector net savings covered gross public sector investment. But these favourable developments must be qualified by the growing importance of the Bank of Brazil debt with the Central Bank registered in the *conta de movimento*.

The favourable balance of payments results and the fast expansion of credit targeted to exports and the agricultural sector led to pressures for the expansion of the monetary base. To the traditional instruments of monetary policy such as administration of compulsory reserve requirements and rediscount were now added open-market operations. The rate of inflation fell slowly and irregularly until 1973, creeping up in 1971 and 1973. Official statistics indicated a yearly inflation rate around 15 percent in 1973 in spite of stagnation in agriculture, but there were indications that official rather than actual prices had been used to compute the indices. In 1974, new estimates of the cost of living index in Rio de Janeiro indicated an increase of 26.6 percent rather than of 13.7 percent, as originally claimed. So the government did not fulfil its inflationary target of 10 percent by the end of the general Médici's term of office (1969–1974), but with all the targets concerning economic growth so comfortably beaten it would perhaps seem ungenerous to unduly stress this shortcoming if it was not for the attempt to fiddle with the price indices.

By the end of 1968 the government extended indexation to the foreign exchange rate by adopting a crawling peg policy: the administered exchange rate was to be adjusted frequently to reflect domestic inflation in relation to inflation abroad and the government would try to maintain a relative stability of the real exchange rate. The average nominal devaluation until 1973 was of less than 2 percent each one or two months. But the real appreciation of about 15 percent which had accumulated since 1965 was not reversed until 1973–1974. Given the multiplicity of export and import subsidies it is important to qualify any assessment of the advantages of a unified exchange rate compared to a system of multiple exchange rates. In fact the de facto multiple exchange rate system which took root in the late 1960s would seem to be as discretionary as, say, the de jure 1953–1957 multiple exchange-rate regime.

A change of foreign economic policy can be detected in 1967–1968. Export promotion, which had started in 1965, was given greater emphasis. By mid-1968 exports were offered the conventional stimuli of Federal indirect tax rebates, of many state tax rebates, of input import duty reduction

related to drawback schemes, and also an income tax rebate scheme which was GATT-illegal. An additional GATT-illegal system of tax subsidies was introduced based on export performance: exporters would qualify for tax rebates on their nonexport business. In the early 1970s subsidies to exports of manufactures were in the region of 20–25 percent of their value. Subsidies related to the export promotion regime tended to match the effects of the relative overvaluation of the domestic currency implicit in the foreign exchange policy since 1968.

The value of exports increased 3.3 fold in 1968–1973, at an annual rate of 26.9 percent. Export volumes increased at 13.3 percent annually, considerably above the 9.4 percent annual expansion of world imports. The Brazilian share of world exports increased from 0.87 percent to 1.18 percent, reversing the declining trend since the early 1950s. The distribution of market shares changed significantly during the second half of the 1960s. By 1973, the United States market, which had absorbed half Brazilian exports in the early 1950s, had shrunk to under 20 percent of Brazilian total exports, whereas the share of exports to Europe of the twelve increased roughly from 30 percent to 40 percent. The share of exports to non-United States and non-European destinations also increased: those to Japan almost trebled to 6.9 percent and those to Latin America increased from 7 percent to 11 percent.

Exports of manufactures (NBM 5-8) increased to 6.2 percent of total exports on average in 1965–1966 and in a broader definition this share was 10.8 percent in 1968 and increased very rapidly to reach 23 percent in 1973. If semi-manufactured exports are included the total rises to 32.4 percent in this latter year. The aggregate manufactured export ratio in relation to total output increased from 2.6 percent in 1967 to 6.9 percent in 1974. Such ratios in the mid 1970s typically exceeded 10 percent for leather products and 20 percent for food products. In the early 1970s developing country markets, and especially Latin America, were already very important for exports of transport equipment and capital goods, while developed economies absorbed most of the food, textile and footwear exports. Exports of soya and soya products became increasingly important reaching 15 percent of total exports by 1973, compared to 2.4 percent in 1967. The share of coffee exports which in 1967 was still 42.6 percent fell to 20.1 percent in 1973. In the late 1960s, in contrast with the 1964–1967 period, the good performance of Brazilian exports tended to be explained relatively more by the growth of world demand than by increased competitiveness of Brazilian goods. For manufactures, however, increased competitiveness, coupled with export

incentives, tended to be more important. The share of foreign-controlled firms in the exports of manufactures rose from a third to a half.

There was an increased current account deficit in 1968 as the significant trade surplus which had occurred in 1964–1967 was practically wiped out with the recovery of imports. At the end of the year there was a partial reversal of the 1967 trade liberalisation with an upward revision of import tariffs. Products that had been formerly included in the special category had tariffs increased by 100 percentage points. There was an increase in the level of minimum prices used for customs valuation purposes. The average tariff on manufactured products was increased to 66 percent compared to 48 percent in April 1967. Because there was redundancy in the tariff these numbers tend to exaggerate the increase in protection. Discretionary duty exemptions or reductions were, however, common, as part of projects approved by CDI or BEFIEX. Effective protection measures corrected for foreign exchange distortions suggest levels of 45–47 percent both in 1967 and in 1973. Given the widespread exemptions, however, the ratio between import duties actually collected and the value of imports decreased from 13 percent in 1969 to less than 8 percent in 1974. Imports grew faster than exports after 1969 and there were trade deficits in 1971 and 1972 of 11.7 percent and 8.2 percent of import values, respectively. Import volumes between 1968 and 1972 increased more than 20 percent every year with the exception of 1969. There was negative import substitution as manufactured import ratios in total supply increased. The aggregate ratio of imports in total supply increased from 7.1 percent in 1967 to 11.9 percent in 1974. It exceeded 10 percent for metallurgy and paper, 20 percent for chemicals and electrical equipment, and 30 percent for machinery. Oil imports increased substantially as domestic oil production practically stagnated from 1967–1968 to 1972–1973. It is difficult to characterise an unqualified opening up of the economy after 1967. Increased outwardness may be detected in the treatment of foreign investment and the export promotion. But the latter was based on discretionary and nontransparent decisions. And, most important of all, the level of protection of the domestic market remained relatively high.

The flows of private capital took a long time to recover. There was a lag between the measures which created an improved environment for the operation of foreign capital and a recovery in the flows of direct investment which increased significantly only after 1969 attracted by the industrial boom. The stock of foreign direct investment increased according to Central Bank data from US\$1.6 billion to US\$4.6 billion between 1967 and

1973. These are most probably substantial underestimates of actual stocks. Almost 80 percent of the stock in 1973 was in the manufacturing industry. The main foreign investors were from the United States (37.5 percent), Germany (11.4 percent), Canada (7.9 percent), Switzerland (7.8 percent), United Kingdom (7.1 percent), Japan (7 percent) and France (4.5 percent). The number of joint ventures increased as it became government policy to foster the so called tripod model of cooperation between state-owned enterprises, Brazilian private capital and foreign firms. The systems of export and import subsidies coupled with the persistently high levels of protection against imports explain the attraction of the Brazilian market. It also explains the continuously important role of multinational firms in the lobby against trade liberalisation.

There was a significant increase in the net debt from US\$3.2 billion at the end of 1966 to US\$6.2 billion at the end of 1973. As exports increased rapidly the net debt-export ratio fell rapidly from 2.45 to 1.0 but the foreign debt service continued to be excessively concentrated in the mid-term. The debt service-export ratio reached almost 40 percent in 1972 and about 35 percent in 1973. Successive surpluses in the balance of payments led to the accumulation of reserves which reached US\$6.4 billion in 1973, equivalent to about a year of imports. In 1967 they had stood at US\$421 million, roughly four months of (very low) imports. The net resource gap, the difference between domestic expenditure and output, was not large: 0.8 percent of GDP in 1967–1973 and 1.2 percent of GDP in 1970–1973. There several alternative instruments to raise loans abroad. Firms could obtain loans directly from banks or suppliers abroad. Banks in Brazil could also after 1967 (Central Bank Resolution 63) borrow in the long term in the international market and place shorter term loans in Brazil. Instruction 289, discontinued in 1972, was mainly used to raise short-term capital. The share of private banks in total foreign debt in 1973 was around two thirds. The share of credits from official agencies in the total debt decreased rapidly from around one-third of total foreign debt in 1967 to one-fifth in 1973.

After 1967 it became increasingly clear that the economic strategy was moving away from the already incomplete and faltering liberal paradigm of the years 1964–1967. The Costa e Silva government failed to address in a sustained fashion the problems raised by the traditional wholesale adoption of discretionary economic measures. There was a revamping of the policy instruments but no sustained effort to change the rent-seeking tradition in an essential way. There was no abandonment of the 'pick the winner'

policies which had marked the past but rather the belief by new policy-makers that they were better at the game of picking winners than their predecessors. These beliefs proved to be groundless. Government policy was increasingly to depend on the dissemination of systems of incentive based on the use of discretionary instruments which favoured specific sectors or projects in detriment of others. These, in spite of the occasional, but increasingly rare, lipservice to the virtues of the market, cannot be seen as more than a refurbished system of organised rent-extraction to systematically benefit sectors selected on the basis of their political leverage. By 1967 government planning efforts were still stressing the weaknesses of the private sector and blaming it on the 'excessive pressure' exerted by the public sector. By 1970 it had become explicit government policy that economic development depended on a close alliance between government and the private sector and this trend was deemed by the government to be in tune with dominant international trends as shown by the growing influence of government in some of the developed economies through the expansion of public investment and of the scope of regulatory activities.

Available data make it rather difficult to show unambiguously an increase in the weight of the public sector and the consequent crowding out of the private sector, even if public investment in all levels of government corresponded to more than half of gross total investment. State-owned enterprises were able to finance out of their revenues more than 50 percent of their investment needs. The increased influence of the state, however, is much underestimated by judgements based on data on the share of the state. The 'tripod model', joint ventures between public enterprises and private firms, foreign and domestic, became the rule in the expansion of targeted sectors such as petrochemicals. Public ownership was the rule in the modernisation of the infrastructure. Perhaps the most successful effort was the expansion of telecommunications networks under the umbrella of the holding *Telecomunicações Brasileiras S.A.-Telebrás* [Brazilian Telecommunications]. But one should beware of unqualified assertions. Belief in the virtues of state intervention led to extremely awkward institutional arrangements not the least because of the unwarranted scope for military influence both in the direct administration and in state-owned enterprises. The distortions caused by such trends can be perhaps exemplified by the institutions related to air transportation as the Air Ministry maintained a firm grip on all segments of the industry, including airports, civilian traffic control and regulation of civilian air transportation services. The intelligence services, which played a prominent role in

political repression, especially after the December 1968 'coup within the coup' and General Médici's assumption of power in October 1969, following President Costa e Silva's stroke, had a very close link with the agencies in charge of telecommunications services and much influence in decisions related to attempts to create industrial capability to substitute imports of telecommunications and electronic equipment.

Increased centralisation of the decision-making process made the new system particularly vulnerable as no effective checks and balances mechanisms were in place. Projects which proved to be blunders started to become numerous and substantial: the Trans-Amazon highway, many of the regional or regional integration programs, land and colonisation policies. Political decisions which would ripen into new even bigger failures further ahead, such as the nuclear programme, were taken during these years. It does not improve these failures the fact that they would be dwarfed by those in the second half of the 1970s and the stagnating 1980s.

Brazil's growth record from 1968 until 1973, after a difficult year in 1967, was spectacular. GDP increased on average 11.2 percent per annum led by industrial growth at 13.3 percent per annum. Even agricultural output increased at 4.5 percent per annum. Although much of this acceleration was made initially possible by the use of idle capacity there was a significant increase in gross capital formation as a share of GDP. This had been 16.2 percent in 1967 but increased to 21.8 percent in 1974. The limited data available on the infrastructure show some, but not spectacular, improvement period concerning telephones and roads. But the paved road network and the electricity generating capacity were roughly doubled during these years. With GDP growing 14 percent in 1973, after six years of annual growth above 9 percent, and import volume growing more than 35 percent, there were clear signs that the Brazilian economy, like the world economy, was overheating. Import prices increased 21.7 percent in 1973 and export prices by more than 35 percent.

The share of industry in GDP in 1973 had reached more than 36 percent compared to 29 percent in 1967. In spite of the concentration of resources in agriculture its share of GDP was only maintained at about 12 percent in 1973. Industrial output growth in 1968–1973 was led by consumer durable and capital goods with rates of growth in excess of 20 percent. The production of intermediate products and non-durable consumer goods increased at annual rates in the 12–15 percent range. State enterprises increased their dominance in their traditional sectors such as steel and oil refining and had an important role in the new investments in the petrochemical

industry. The share of domestic firms in total assets in manufacturing industry increased from 53 percent to 58 percent in 1966–1972. But this was due to the share of state-controlled firms increasing from 17 percent to 30 percent of such assets. Consumer durables, whose sales were mainly financed by the fast expansion of consumer credit, led the boom. Success in these years contradicted interpretations which had stressed the difficulties posed by the inconsistencies between the structure of supply and the restraints on demand created by the income concentration process.

There was a marked change in the structure of agricultural output with the increased importance of soya products and orange juice and a consequent reduction of the relative importance of some of the traditional commodities such as coffee and also of crops for domestic consumption such as beans. Soya beans production increased seven fold between 1967 and 1973 to reach five million tons. There was a great increase in mechanisation and also in the use of fertilisers. Production of heavy wheel tractors increased nine-fold and apparent consumption of fertilisers three-fold between 1967 and 1973. One of the most important examples of successful public policies was the development by *Empresa Brasileira de Pesquisa Agropecuária-Embrapa* [Brazilian Agricultural and Livestock Research Enterprise] of many seed variants adapted to Brazilian conditions. Much of the increased agricultural output was in the *cerrado*, mainly in Minas Gerais and Goiás, whose excessive soil acidity had until then prevented agricultural exploitation. Soil correction effectively opened these regions as part of the agricultural frontier in the 1970s. An important consequence of the soya revolution was the development of a significant poultry industry whose products would be increasingly exported. The fall in the relative prices of products in the poultry chain made possible the diffusion of their consumption amongst the poor segments of the population with consequent improvement of their diet. This partially compensated for the effects of the wage squeeze until 1967 and the persistently low level of earnings of the very poor.

In 1968, the framework introduced by Campos-Bulhões to define wage adjustments was changed: underestimation of the 'inflationary residual' would be corrected for the twelve months before the wage settlement so that the wage squeeze due to recurrent overestimation of the rate of reduction of inflation would be corrected. Evidence on real wages suggests that real wages in 1974 were at the same level of 1964 for most unskilled occupations. Real wage increases had tended to benefit skilled workers and, most of all, those occupying managerial positions. In 1970, a not very effective *Programa de Integração Social* was created, trying to meet the

constitutional requirement concerning the participation of the labour force in profit sharing. Yearly interest could be withdrawn but the principal was subject to rules similar to those of the FGTS.

There was an acute awareness on the part of policy-makers of the advantages of a high growth performance. It made possible progress by all sectors of activity and all the population in spite of the unequal performance of specific sectors of the economy or the impact of growth on different segments of the society. This is exemplified by what happened to income distribution. Much of the contemporary criticism of government policies concentrated on income distribution and on the acknowledged government strategy of 'making the cake increase before sharing it'. Much of the debate on income distribution resulted from different ways of looking at the empirical evidence, rather than on conflicting evidence on income distribution. Progovernment analysts tended to stress that the incomes of all deciles of the income distribution had increased from 1960 and 1970, including and especially the very poor. There was, however, no denying the fact that income concentration increased during the 1960s and the early 1970s. The share of the 5 percent richest in total income increased from 28.3 percent in 1960 to 34.1 percent in 1970 and 39.8 percent in 1972, while the share of the poorest 50 percent went down from 17.4 percent to 14.9 percent, and then to 11.3 percent. And this was stressed by those who opposed the military regime. On the other hand, its record on job creation was rather good as employment between 1968 and 1973 increased at 4.3 percent per annum, much above the increase of 3.0 percent per annum in population over fifteen years of age. And the share of the population covered by the public social security system increased: it was 7.4 percent of total population in 1963, reached 9.6 percent in 1970 and continued to rise rapidly. From the early 1970s social security and public medical assistance were extended to the rural population through Funrural.

Under Costa e Silva (1967–1969) the main instrument to promote regional development continued to be fiscal incentives targeted to the Northeast. The industrialisation promoted in the Northeast was not able to create a large number of industrial jobs as had also occurred in the industrial boom of the 1950s in the Southeast. After 1969, and especially after the 1970 drought, under Medici (1969–1974), regional development strategy was increasingly based in attempts to attract surplus population in the Northeast to the Amazon region. A *Programa de Integração Nacional* (PIN) [National Integration Programme] was launched to assure that investments were channeled for irrigation projects and for export corridors in

the Northeast as well as for new roads in the Amazon region, including the Trans-Amazon highway. The failure of such efforts spoiled an otherwise good record concerning infrastructural projects.

Oil Shocks, Adjustment, and Stagnation, 1974–1980

When General Ernesto Geisel took office in March 1974, the fourth military president since April 1964, it was becoming clear that the destabilising consequences of the overheating of the economy were compounded by the balance-of-payments ‘shock’ of 1974 as the world price of oil increased four-fold. Brazil produced only 20 percent of its oil consumption. Petrobras, the state-owned oil monopoly, in the late 1960s and early 1970s adopted a policy of increasing its share in the distribution segment of the market for fuel products and was involved in the establishment of a number of new petrochemical projects based on the ‘tripod’ strategy of cooperation between the state, national private firms and foreign capital. This strategy was based on geological evidence that the discovery of significant inland oil fields was unlikely. In spite of much politically based controversy since the late 1950s on the accuracy of such predictions and unwarranted aspersions on the neutrality of foreign geological expert advice this proved to be correct. To increase domestic oil production would turn out to be a slow process and all new future output would come from deep sea exploration made economically feasible by increased oil prices.

It is easy to exaggerate the importance of the balance of payments difficulties. Import dollar prices increased by more than 51 percent in 1974, but dollar export prices increased by almost 26 percent. But terms of trade had improved significantly in 1973, so that in relation to 1972 the fall was limited to 6.7 percent. There was a further small fall in 1975, but a sharp increase in 1976 brought them back to the 1972 level. Perhaps more damaging than the fall in terms of trade was the relatively laggard behaviour of export volume. It increased 6 percent yearly between 1973 and 1979, only slightly above the expansion of world imports at 5 percent yearly. In 1980, however, there was a spike in the value of exports whose growth of 32.1 percent reflected mostly an increase of export volume as prices rose only 5.9 percent. Export volume stagnated in three years (1974, 1976 and 1977) of President Geisel’s five-year term of office which had started in March 1974 and the ratio of exports to GDP, which had increased slowly from 6.9 percent in 1965 to 7.5–7.6 percent in 1973–1974, stagnated around 6.7–7.4 percent until 1980. By 1979, Brazil’s share of world exports had

declined to 1 percent and it recovered only slightly to 1.07 percent in 1980. Industrialised products exports rose from 32.4 percent to 56 percent of the total and the ratio of manufactured exports to manufactured output increased 2.2 percent points to reach 9.1 percent in 1979. By 1979, the share of coffee in total exports had fallen to 27.2 percent, including soluble coffee.

There was a substantial increase in the market share of exports to other Latin American economies from 9 percent to 16 percent between 1973 and the end of the 1980s, mainly displacing European markets. The increase in the shares of the Middle East and Africa was modest. But for manufactured exports the shares for all destinations in developing economies and the Middle East increased considerably: in Latin America from 25 to 30 percent and in the Middle East and Africa almost doubling to reach 8 percent and 13 percent. In these latter cases this was to a large extent the result of countertrade deals involving the exchange of oil imports for manufactured exports. Increased market shares for manufactures were mainly at the expense of the United States and Europe which both ended the decade purchasing 21–23 percent of Brazilian manufactured exports.

Export subsidies were increased from typically 20–25 percent of FOB value in 1969–1975 to 32.5 percent in 1976 and 34–38 percent in 1977–1979. Of these, BEFIEX export performance-based import duty exemptions rose to reach 5 percent of FOB value in 1979 and 8 percent in 1980. By 1980, BEFIEX exports accounted for a fifth of Brazilian total exports. In spite of having been a founding father of GATT in 1947, Brazil for many years played a relatively minor role in the multilateral negotiations. This started to change in 1970s during the Tokyo Round, as the United States shifted to a policy of pressing for reciprocity from the bigger developing economies. In 1980, after Brazil signed the GATT Subsidies Code under considerable pressure by the United States, tax credits linked to export performance (*créditos prêmio*) started to be discontinued. Export taxes affected a growing number of products with the objective of either assuring a reduction in the volatility of domestic prices or stimulating the further processing of exports using, for instance, cotton, leather and soya beans as inputs.

Import repression was very substantial. In the five-year period ending in 1974 import volumes had increased on average 23.8 percent annually. Import volumes stagnated in the next six years until 1980 in spite of GDP annual of 6.8 percent: the implied reduction in the import–GDP ratio was almost one-third, reaching its pre-1972 level. The ratio between manufactured imports and total supply fell from 11.9 in 1974 to 6.8 percent

at the end of the decade. Import to GDP ratio fell from 11.3 percent in 1974 to 6.6 percent in 1977–1978 and again after a recovery in 1979.

The maximum tariff rate was raised by surcharges from 100 percent to 205 percent in 1974 and the list of products included in the surcharge list and tariffs on inputs were increased in 1975. In 1974, luxury goods imports had to be paid on sight and in 1975 six month interest-free advance deposits had to be made when current inflation was in the region of 30 percent yearly. But import duty concessions continued to be significant. Imports by state-owned enterprises and under state monopoly, such as wheat, corresponded to 40 percent of total imports and were subject to annual ceilings and the Law of Similars was continuously applied to favour the purchase of goods produced domestically. Some luxury goods had their imports de facto prohibited in 1976 and the list was expanded in 1978. The effective rate of protection fell somewhat from 47 percent in 1973 to 43.6 percent in 1980–1981, but it increased for both capital and intermediate goods. The ratio between import duties and the value of imports had risen in the 1960s to reach a peak of 14.6 percent in 1966 then fell almost continuously to under 8 percent in the late 1970s.

Arguably, awareness that the economy was facing extremely serious balance of payments constraints spread only slowly. Mário Simonsen, the new Minister of Finance in 1974, initially proposed contractionist policies mainly because of the intensity of inflationary pressures and the loss of control over monetary policy. But the government was far from monolithic in relation to the emphasis on inflation control. There were clear inconsistencies between the objectives of economic policy and the explicit growth targets of 10 percent a year included in the *II Plano Nacional de Desenvolvimento* [National Development Plan]. The plan was marked by views which unduly reflected hopes that the recent period of spectacular growth could be extended. Unwarranted optimism was reflected in the often repeated and much derided dictum that Brazil was ‘an island of prosperity’ amidst world economic turmoil. Perhaps nobody expected that the tail – the Brazilian economy – would wag the dog – the world economy – but there was much optimism on the feasibility of continuing to wag the tail. Even discounting the more sanguine views on the priority of growth it is clear that the government had decided for a ‘gradual’ adjustment to the shock. This was based on a shaky arithmetic of the foreign debt as it was supposed that dollar real interest rates would remain negative or low. That this assumption was not prudent would become bitterly clear towards the end of the decade.

Artificial price controls were removed in the beginning of 1974 and this led to an acceleration of monthly inflation to almost 4 percent in contrast with the average of less than 1.5 percent in the previous six years. Monetary correction criteria were made less dependent on discretionary decisions by its indexation to the wholesale prices index. Monetary policy in 1974 as a whole ended up by being accommodating as monetary base money was expanded 32.9 percent, in spite of the significant loss of reserves. Means of payments contraction says little about liquidity due to the sharp changes in the nature of money demand with the increase in indexed government paper. Monetary policy, given that interest rates were set by the government, depended on credit control. But government traditionally had little control over Bank of Brazil credit policies. Bank of Brazil loans and Central Bank transfers in 1974 rose by above 75 percent and almost 90 percent, respectively. Real interest rates became negative as nominal rates were at the same level of 1972, while annual inflation rose from 15 percent to 35 percent. After October 1974, additional inflationary pressures were to result from the new wage policy because, although it was still based on the principle of holding constant the average (twelve-month) real wage, there was a new provision on compensation of past underestimation of future inflation rates.

There was a sharp short-term fall in the level of industrial output. This led to an outcry by the *classes produtoras*, which, coupled with the good electoral performance of the opposition in the elections of November 1974, led to a reversal of the emphasis on the control of inflation through contractionist policies. In spite of the lack of monetary control in 1975 there was a monetary contraction in beginning of the year due to loss of reserves with the fall in the growth of exports and the public's increased preference away from sight deposits. The government adopted a wavering policy as it initially tried to break the expectations of rising inflation, then ended up by losing nerve and bailing out financial institutions facing liquidity problems. Through a compensatory rediscount policy, the Central Bank would, depending on the extent of monetary contraction, lend to commercial banks at 6 percent a year and without monetary correction.

Given the government obvious political clout the fact that it caved-in is a demonstration of a clearly asymmetric behaviour when dealing with real or alleged menaces to price stability depending whether they originated in the working class or among entrepreneurs. The government's parochial vision of the implications of the world recession is undeniable. The growth target of the Second National Development Plan (PND II) of 1974 of 10 percent

annually was only slowly and grudgingly admitted to be lacking in realism. The views of those who underlined the political advantages of a continued emphasis on growth prevailed over those who advocated demand control. The rationalisation of this choice by former President Ernesto Geisel, more than twenty years after the events, seems unconvincing: 'Brazil [in contrast with the developed economies] could not stand a recession.' Indeed, Brazil after 1980 was to 'stand a recession' for more than twenty years. It was perhaps dictatorial rule that could not stand a recession.

Despite the lipservice paid to a restrictive monetary policy, there was in fact monetary expansion in 1975 and restrictions were more of a fiscal nature. There was a sustained effort to increase the importance of income tax in tax revenue so that by the end of the decade it had become the most important form of taxation with a share of 40.2 percent compared to 30.4 percent for IPI (now computed on a value-added basis), 14.7 percent for the financial transactions tax and 10.9 percent for import duties. GDP growth decreased to 5.2 percent and export growth, mainly due to price effects, fell from almost 30 percent in 1974 to less than 10 percent in 1975. In 1976, with the persistence of high inflation, there was a second, more successful attempt to stabilise, and once again the government promised monetary austerity. But, once again, there was lack of coherence in economic policy. It is true that interest rates were finally freed from control and the government recovered some of the more traditional instruments to monetary policy and that there was some attempt to put Bank of Brazil credits under control, but there was a significant real expansion of credit to the private sector. A new unfavourable development was to try to interfere with inflation through control of public prices charged by the state-owned companies.

By early 1977 those in government circles more committed to a growth strategy were in a rather self-congratulatory mood stressing that Brazil had avoided the main consequences of the world recession through an expansion of exports and a policy of stressing self-sufficiency in basic inputs. Macroeconomic policies in the two last Geisel years were dominated by the attempt to reverse demand policy and repression of public prices. Real rates of interest became positive. The fall in the monetary base–GDP ratio was a consequence of financial innovation and acceleration of inflation as there was a progressive substitution of monetary base by public debt. The fall in the rate of inflation to slightly less than 40 percent in 1977 was mainly due to a bumper crop which increased agricultural output by more than 12 percent. There was, however, a modest rise of the inflation rate in

1978, partly explained by a bad crop. This also adversely affected the trade balance as food imports rose.

After 1974 as a result of the government's strategy there was a rapid rise in foreign indebtedness with an increased share of public debt in total foreign debt. The rationale for increasing the debt was based on the explicit priority for high growth and on the ruling negative real interest rates, given the accommodating macroeconomic policies adopted by the United States. There was a snowball effect: increasing interest payments rose from US\$0.5 billion in 1974, to US\$2.7 billion in 1978 and US\$4.2 billion in 1979. There was a clear underestimation of debt requirements: in 1975 it was planned that foreign debt at the end of 1979 should be US\$35 billion in contrast with the actual US\$49 billion. Admittedly this included a year of post-second oil shock balance of payments, equivalent to US\$6.4 billion of increased indebtedness in 1979. The share of foreign savings in total savings rose from 5–10 percent in the early 1970s to more than 20 percent in 1979–1980.

Reversal of the trade imbalance following the oil shock which had reached US\$4.7 billion in 1974 had been achieved in 1977. Increased indebtedness also allowed a rise in foreign reserves after an initial fall. In 1974–1975 reserves, which had been above US\$6 billion in 1973, fell by almost US\$2 billion. There was a modest increase in both 1976 and 1977 and a very big one, of more than US\$4 billion, in 1978 to around US\$12 billion when imports were only US\$13.7 billion. Gross debt–export ratios rose from 2 in 1973 to 3.6 in 1978, but even then policy-makers are on record as considering that the inheritance which was left was fair: a high level of foreign reserves, inflation around 40 percent a year and the economy growing at 6 percent a year.

The second significant external shock of the 1970s struck the economy in late 1978. Oil prices rose from US\$12/barrel in late 1978 to US\$30/barrel in early 1980. There was a sharp rise in international interest rates due to stringent macroeconomic policies in the United States, in sharp contrast with the mid 1970s. In March 1979 General João Figueiredo had replaced General Geisel as president and Mário Simonsen had moved from the Finance Ministry to become Planning Minister in the new administration. Simonsen was concerned with fiscal disequilibrium and advocated a policy of retrenchment. However, Antônio Delfim Neto, who had returned to government as Minister of Agriculture, was an opponent of Simonsen's strategy for dealing with the second oil shock and had considerable political clout. Unable to win the political fight against Delfim Neto, and the

other spending ministers, Simonsen resigned in August 1979. Delfim Neto replaced him as Planning Minister and his initial economic strategy was partly a repetition of the successful recipe of 1967–1973 of *fuite en avant* based on the view which stressed cost pressures as an important explanation for high inflation. But it included a significant, if rudimentary, inertial element as there was an effort to reverse inflationary expectations by ending indexation and pre-fixing inflation and exchange rate adjustment for one year ahead. Massive agricultural inducements to agriculture would assure a super crop and a drop in the inflation rate after an initial increase. Maximum interest rate levels were set in an attempt to reduce financial costs and consequently inflationary pressures. At the end of 1979 there was a 'corrective' maxi-devaluation of 30 percent of the cruzeiro to make sure that exports would expand adequately. A new wage policy was introduced in October 1979 including features such as the indexation of wages below three minimum wages based on inflation in the previous semester plus 10 percent. For wage levels between three and ten, minimum wages indexation would be based on actual inflation, but for wages above ten minimum wages a coefficient of reduction of 0.8 was to be applied at the margin. In 1980, the coefficients applied to higher wages were further lowered.

But the attempt to maintain expansionary policies failed to convince the markets. Foreign loans dried up during 1980 and foreign reserves fell heavily. Policies based on interest rate and foreign exchange pre-indexation had been abandoned towards the end of 1980. In the meantime inflation had accelerated to reach a plateau of around 100 percent yearly. From September 1980 economic strategy would change radically as the stress would shift to the control of domestic absorption mainly by means of restrictive monetary policies. Interest rates increased and the level of economic activity started to fall after GDP growth of more than 9 percent in 1980. The Brazilian economy entered into a long period marked by high inflation and growth stagnation.

GDP growth rates during the Geisel government were lower than those during the 'miracle' years, but still quite high. Gross fixed capital formation to GDP ratios were maintained in the 21–23 percent range. Average yearly GDP growth between 1973 and 1980 was 7.1 percent. Both industrial and agricultural increased on average 6.8 percent and 4.8 percent a year, respectively. Industrial employment which had increased at the extremely high rate of 9 percent a year during the boom of 1967–1973 still increased 4 percent yearly, marginally above the growth of the economically active population.

The strategy based on the concentration of investments in ISI projects producing industrial inputs and capital goods resulted in increased shares of the sectors such as metallurgy, mechanical engineering and electric equipment in total industrial output. The weight of government and state-owned enterprises investment in total investment increased from 32 percent in 1970–1974 to 47.3 percent in 1975–1980. New sectors such as petrochemicals were targeted for expansion and there were significant investments in infrastructure. The continued expansion of the telecommunications sector and the removal of long-standing bottlenecks were of particular interest. Much effort and considerable resources were also spent in the development of scientific and technological capability with some success. Such achievements were highly praised by many analysts who seem, partly with the benefits of hindsight, overenthusiastic. Indeed, some of the more extreme analyses of the period emphasised the importance of extending the seven ‘miracle’ years by another six years so that a long period of steady growth would create the ‘external economies’ which would allow Brazil to enter into ‘the family of developed economies’.

A panoply of incentives was used to foster industrial development involving barriers to entry, high protection, fiscal rebates and heavily subsidised credit. There was a high degree of governmental intervention but not very good coordination: priorities were defined by government councils such as the Conselho de Desenvolvimento Econômico and the Conselho de Desenvolvimento Industrial helped by sectoral councils for steel, ship-building, telecommunications equipment and mining. Fiscal incentives were also granted by regional agencies such as *Sudene* (Northeast), *Sudam* (Amazon region) and *Suframa* (Manaus Free Zone).

The lavish use of official credit to finance industrial projects was mainly through BNDE, the national development bank. A number of new agencies were created to play specialised roles in the administration of this elaborate pick-the-winner system: *Insumos Básicos SA-Fibase* [Basic Inputs], *Empresa Brasileira de Indústria Mecânica-Embramec* [Mechanical Industry Brazilian Enterprise], *Agência Especial de Financiamento Industrial-Finame* [Special Agency for Industrial Financing] and *Investimentos Brasileiros SA-Ibrasa* [Brazilian Investments]. The gift element entailed by such official loans became very substantial in the long term as after 1974 monetary correction was capped at 20 percent a year and inflation accelerated: for these contracts the average gift element up to 1987 had been no less than 75 percent of the total disbursements.

Other agencies played important roles in this extended web for the distribution of incentives. The Conselho de Política Aduaneira (CPA),

was in charge of establishing the level of tariffs and nontariff barriers affecting imports. The *Carteira de Comércio Exterior-Cacex* [Foreign Trade Department] was in charge of the implementation of import controls and of decisions on 'national similarity' which if recognised could mean absolute protection for the domestic producer. The *Conselho Interministerial de Preços* (CIP) [Interministerial Price Council] had a decisive role in matters related to price control.

The *Brasil Grande* strategy included a not insignificant number of bad projects some of which were grotesquely overambitious. These included such notorious white elephants as the Ferrovia do Aço and the Açominas steel mill, and also roads in the more remote regions of the country such as the Transamazônica. But it is the nuclear programme which must be treated as a paradigm of the overextension of this strategy at the project level. The programme was initially rationalised by the advantages of creating a political alternative to the up to then close relation with the United States in a moment the U.S. government was taking awkward stances concerning the bad Brazilian government record in relation to human rights. According to the agreement with Germany eight nuclear power plants were to be installed with a total capacity of 10,000 MW and Germany would transfer the technology required for uranium enrichment. The beginning of operation of the first 1,300-MW nuclear-powered power stations planned under the agreement would be almost exactly a quarter of a century after the signature of the nuclear agreement with the Federal Republic of Germany. In the meantime at least US\$7.5 billion had been spent; at least three times the initial budget. Completion of a second power station is said to depend on expenditure of a further US\$3 billion. It was never recognised that Brazil faced a fuel crisis rather than an energy crisis and that the substitution of oil by electricity was bound to be slow even if the right policies were adopted. Indeed, energy policy as a whole proved to be one of the most incompetent aspects of policy-making between 1973 and the second oil shock. Subsidised consumption of fuel oil at the end of the period was 3.6 percent higher than in the beginning; diesel consumption was more than 14 percent higher. Domestic oil production remained stagnant as it took time to develop off-shore production. Efforts to enhance energy conservation and the development of alternative sources of energy were feeble. In 1978, the government decided to buy the Brazilian Light and Power group, which had been operating in Brazil since the beginning of the century, thus ending a long period of involvement of direct foreign investment in the provision of public services. The decision was much criticised as involving an excessively high purchasing price.

Given the sharp contraction in the import content of GDP after 1974, import substitution had again some importance as a source of growth of output, especially for capital and intermediate products. Its importance was negligible for consumer goods and demand expansion answered in the case of all categories of use for at least 75 percent of growth. For the first time export expansion 'explained' around 10 percent of growth in the output of capital and intermediate goods. But as the non-oil import–GDP ratio reached once again levels below 5 percent towards the end of the decade, the importance of import substitution as a source of growth was nearly exhausted. The deepening of import substitution had costs in terms of growth which would become acute in 1980s as the share of capital goods imports in total expenditures on machinery and equipment fell. Investment costs rose as protection of the domestic production of capital goods increased their prices. There is also evidence of increasing construction costs. This was compounded by the gap between the quality of domestically produced capital goods and of imports as they were less likely to reflect state of the art technology, even if considered to be for most purposes equivalent to imported substitutes.

The spatial distribution of output changed between the late 1930s and 1980 in favour of the more remote regions, especially the Centre-West. The Centre-West states' share of national GDP more than doubled from 2.1 percent to 5.4 percent. This and smaller gains in favour of states in the North and the South was to the detriment of the Northeast whose share of national GDP fell from 16.7 percent to 12 percent.

In spite of the still unsatisfactory levels of key social indicators – life expectancy, infant mortality, literacy – in 1980, the Brazil's performance in reducing shortcomings in the 1970s was much better than in the 1960s, and even than in the 1950s. High levels of poverty, however, persisted and income inequality, always extreme, continued to increase. The share of the two lowest deciles of the population by income remained constant at 3.2 percent of total income between 1970 and 1980. But the share of the highest decile increased from 46.5 percent to 47.9 percent. In 1980 the three upper deciles received no less than 73.1 percent of total income. Social policies had failed to reverse the trends towards an ever more unequal income distribution and social indicators remained below the standards reached by countries with a similar GDP per capita.

Much was achieved by the military regime between 1964 and 1967 in terms of overdue structural reforms but not necessarily those which were more

in evidence in the controversies in the late 1950s and early 1960s. Many institutional arrangements were overhauled and reforms removed important obstacles to growth. Even if the distributive impact of macroeconomic policies was perverse, stabilisation goals were pursued with determination and considerably more flexibility than allowed by criticisms at the time. But the high rates of output growth obtained in Brazil for a relatively extended period after 1967 did not provide the correct incentives for any major reassessment of the economic strategy or a deepening of the 1964–1967 reforms. A high-growth, steady-state path had somehow been attained. It is impossible to detect any sustained effort to put in place a system of incentives which was not based on ad hoc decisions. In this sense the ‘miracle’ years were a continuation of, rather than a marked break with, the rent-seeking traditions of the past. Post-1967 pseudomodernisation perpetuated in modified formats many of the distortions of the pre-1964 regime. With the benefit of hindsight, failure was especially costly in the long term, due to the lack of commitment to a fast improvement of educational standards, the persistent use of discretionary policies, the consequent lack of a reform of the State geared to a less centralised decision-making process and the failure to create an entrepreneurial tradition less closely related to the extraction of favours from the State.

The role of the State remained crucial: a highly restrictive normative framework remained in place and the supply of goods and services by state-controlled concerns continued to be the rule. Private investment to a large extent was directed by the liberal use of ad hoc incentives. New rent-seeking instruments became important: mainly heavily subsidised credit, fiscal rebates and export subsidies. The acceleration of inflation increased the scope for the introduction of pick-the-winner policies in relation to monetary correction.

Aversion to incur the political costs of facing the consequences of corrective policies was the main mark of the decision-making process, especially towards the end of the period. The military regime, especially after 1967, had shown a clear lack of stomach to counter the wishes of the *classes produtoras*, in sharp contrast with the brutal handling of labour unions and political opposition to the regime. This explains why a serious stabilisation effort after 1973 was postponed and why, when it was finally implemented, it was only in a half-hearted way. A mixture of lack of political courage, complacency with vested interests favouring expansion at ‘whatever cost’, and wrong judgement on the continued use of strategies which had worked well in the past, were also to explain the short expansionary experiment

after August 1979. The least resistance scenario dominated the scene. This also explains the reluctance to introduce adequate sectoral policies as illustrated by energy policies which resulted in increased consumption of most oil products per unit of GDP. It culminated in the nuclear energy blunder.

Improvement in the export performance notwithstanding, there was no laissez-faire strain to speak of after 1967. The Brazilian economy remained to a large extent insulated from the world economy from the point of view of competition of imports with domestic production. Vested interests favouring protection were powerful. Multinational firms were strong defenders of high protection given the high profits which could be generated by their Brazilian operations protected by a high tariff wall. The autarkic illusion increased the cost of investment and reduced the competitiveness of Brazilian goods.

These critical comments should not be taken as an underestimation of the achievements in the fifteen years following the 1964 military coup. Progress was achieved in many fields. The growth performance after 1967 was outstanding. The macroeconomic imbalances inherited in 1964 – fiscal disequilibrium and high inflation – were corrected, even if temporarily, as events in the 1970s would make clear. The antiexport bias in economic policies was removed and exports diversified.

In a long-term perspective, 1980 is clearly a turning point for the Brazilian economy. Almost fifty years of continuous growth, which had placed Brazil among the top achievers in the world economy during this period, came to an end. Industry had gained much ground in relation to agriculture and the composition of exports was diversified away from commodities. But Brazil's share of world exports had contracted, imports as a share of GDP had become almost insignificant, and state-owned enterprises had crowded out private capital. The public sector was too large and rather inefficient. Many government projects implemented in the 1970s were failures. Macroeconomic performance steadily deteriorated after the mid-1970s and at the end of the decade inflation was high, foreign indebtedness had increased very rapidly, and the disequilibrium of public sector finances had worsened.

The crisis of the strategy based on inward-looking policies and state intervention was to a large extent the crisis of a strategy which took shape in the 1930s and 1940s. Import substitution had been very efficient in the promotion of high growth from the 1930s until the 1970s. But then there were increasing signs that the strategy had become dysfunctional. These signs became evident in the 1980s as the economy stagnated. Rent-seeking

activities which had been growth-enhancing in the past became growth-hindering. 'Pick-the-winner policies' proved unable to provide the appropriate stimuli to assure the sustained competitiveness of Brazilian industrial exports.

The other important element of the Brazilian economic crisis was the inability of the government to deal with growing macroeconomic disequilibria. The Brazilian government proved unable to cope with the deterioration of government finances, allowed excessive growth of the foreign debt, and took a long time to bring high inflation under control. The reversal of economic strategy was delayed by the mistaken belief that high growth necessarily required the standard interventionist policies which had worked so well in the past. The inertia generated by the political economy of vested interests also constrained reform which proceeded at a very slow pace. A change of economic strategy was clearly required. After a long delay stabilisation would finally be achieved in the mid-1990s, but the formulation of a new successful growth strategy would prove to be elusive beyond the turn of the century.

6

THE BRAZILIAN ECONOMY, 1980–1994

Marcelo de Paiva Abreu

INTRODUCTION

For fifty years (1930–1980) Brazilian growth performance had been outstanding with GDP per capita increasing on average 3.7 percent annually. Growth had been particularly strong in 1967–1973, and to lesser extent in 1974–1980.¹ In the years 1981–1983, during the administration of General João Figueiredo (1979–1985), the last of five successive military presidents since the military coup of 1964, there was a sharp deterioration in the Brazilian GDP growth performance. Brazil suffered its most severe recession of the twentieth century. GDP fell 4.9 percent from its peak in 1980. After a brief recovery in 1984–1985 when GDP grew on average 7 percent per annum – years that also witnessed a transition from military to civilian rule (and ultimately a fully fledged democracy) – growth performance remained mediocre during the following two decades. Between 1981 and 1994 GDP per capita increased on average less than 0.1 percent annually. And there was only limited improvement in the decade after 1994.² There was also only modest structural change: agriculture maintained its 10 percent share of GDP from the mid-1970s to the end of the century while the share of manufacturing industry fell from its peak of 34 percent in the mid-1970s to 28 percent in 1990 and remained constant afterwards. (For economic data on selected years between 1980 and 1994, see Table 6.1.)

A succession of external shocks in an indexed economy in the 1970s had caused very high rates of inflation and a deep financial crisis of the Brazilian state whose contribution to domestic savings became negative. Inflation had already reached annual levels above 100 percent at the beginning of

¹ See the preceding chapter for developments during 1930–1980, including the shift in economic policies in September 1979.

² See the following chapter for developments after 1994.

Table 6.1. *Brazil, Main Economic Variables, Selected Years, 1980–1994*

	1980	1986	1990	1994
Population, mid-year, million	121.6	137.7	147.6	156.8
GDP (1980 = 100)	100	114.5	117.1	130.7
GDP per capita (1980 = 100)	100	100.8	95.9	100.8
Gross fixed capital formation as percent of GDP	23.6	20.0	20.7	20.7
GDP deflator (1980 = 1)	1	244.5	2.1 * 10 ⁶	5.6 * 10 ¹⁰
GDP deflator annual rate, percent	90.4	149.2	2595.6	2240.2
Real exchange rate (1980 = 100)*	100	96.4	55.7	69.3
Exports, US\$ billion	20.1	22.3	31.4	43.5
Imports, US\$ billion	23.0	14.0	20.7	33.1
Current account, US\$ billion	-12.8	-5.3	-3.8	-1.7
Foreign direct investment inflow, US\$ billion**	1.5	0.2	0.3	1.9
Total foreign debt, US\$ billion	64.3	111.2	123.4	148.4
Reserves, US\$ billion***	6.9	6.8	10.0	38.8
Terms of trade (1980 = 100)	100	109.4	90.7	113.1
Primary surplus, percent GDP	n.a.	1.6	2.7	5.2
Total public debt–GDP ratio, percent	n.a.	49.0	36.7	30.0
Prime interest rate USA, percent [#]	13.35	6.80	8.10	4.21
Benchmark interest rate, percent ^{##}	90.1	71.5	1,412	1,383

* Real effective exchange rate using wholesale prices in Brazil (IPA-IT) and in its sixteen more important trade partners, weighted by exports of manufactures, Ipeadata. The higher the index the more devalued is the Brazilian currency.

** Net foreign investment, including re-investment.

*** Central Bank, international liquidity concept.

[#] Annual average, Federal funds, Federal Reserve.

^{##} Annual nominal interest rates on Federal government paper, after 1990 the Selic rate. Selic stands for *Sistema Especial de Liquidação e Custódia*.

Sources: IBGE, Brazilian Central Bank and the International Monetary Fund.

the 1980s; it rose to 200 percent and above within the next few years; after a succession of failed heterodox stabilisation plans it peaked at a monthly rate above 80 percent in March 1990; and it remained very high until the *Plano Real* 1993–1994 reduced it to single-digit figures on a sustained basis.

The record of the state as an entrepreneur deteriorated in this period, not only because of the rising number of wrong decisions in the 1970s – *pace* the megalomaniac nuclear programme – but also because public investment was affected by deep cuts in the early 1980s. As trade surpluses increased and the inflow of direct foreign investment was much reduced, net foreign savings became negative.

High inflation and lack of growth in the 1980s prompted a more open attitude towards reform because the model of the previous half-century, which was based on high protection and strong government intervention

in the economy, was patently failing. Most of the efforts of the civilian government of José Sarney (1985–1990) were centered on achieving the elusive return to price stability, but there were also initial moves in the late 1980s targeting the dismantling of protection and the reduction of inefficiencies related to the excessive size of the state. The timid structural reforms started in the late 1980s gained strength under Fernando Collor de Mello (1990–1992), Brazil's first democratically elected president since 1960, and Itamar Franco (1992–1994), who became president after the impeachment of Collor. Results were variable but much was achieved. Trade liberalisation was significantly deepened. A comprehensive programme of privatisation of public-owned assets was implemented which affected first public suppliers of inputs then state-owned providers of public services. There were sustained attempts to reform inefficient public policies and to improve the quality of public expenditure. But growth performance continued to be mediocre.

Debt Crisis, Recession and High Inflation, 1980–1985

When General João Figueiredo assumed the presidency of Brazil for a six-year term in March 1979 economic clouds darkened at the outset of the second oil shock of the decade. In contrast with the period after the 1973–1974 oil shock, nominal U.S. interest rates increased to peaks above 15 percent. Brazil was in an especially vulnerable position because it had opted to rely on heavy foreign borrowing to adjust to the first oil shock. During a brief transitional period, contractionary policies were proposed by Mário Henrique Simonsen, Minister of Finance (1974–1979) and now Minister of Planning until August. He was succeeded as Minister of Planning by Antônio Delfim Neto, Minister of Finance 1967–1974, who remained in charge of economic policy until 1985. From the middle of 1979 to the middle of 1980 Delfim adopted *fuite en avant* policies with which he attempted to repeat the success he had in 1967–1968. These policies attempted to avoid countering inflation through recession by breaking inflationary expectations through the announcement of a target for the inflation rate. It was also hoped that a high sustained level of economic activity would help to lower unit production costs. They resulted in what Simonsen has classified as a 'resounding failure'. GDP increased 9.1 percent in 1980, but inflation roughly doubled to around 100 percent per annum. Balance-of-payments constraints tightened. In an economy where prices were heavily indexed it proved impossible to give credibility to the announcement by the

government of declining future inflation targets. Failure led to a long period until 1985 marked by policies designed to control domestic demand through restrictive fiscal and, mainly, monetary policies which simply did not work.

Between September 1980 and November 1982, recessive, mainly monetary, policies were adopted by Delfim. These were domestically inspired as there was a clear intention to postpone recourse to the IMF and IMF-supported adjustment. This was considered to be too damaging politically in view of the Congressional and gubernatorial elections due in 1982. This stance became extremely difficult to hold after the Mexican moratorium in August 1982 given the balance-of-payments constraints. Indeed, only three days after the November elections, the government announced that it was seeking international financial support and opening negotiations with the Fund.

Until mid-1984 economic policy was mainly defined with an eye on the external constraint. Reserves had fallen US\$3.3 billion in 1979, then a further US\$3.5 billion in 1980. The current account deficit reached US\$12.8 billion in 1980, in spite of a sharp rise in exports. After September 1980, it became clear that foreign capital had been unconvinced by the policy of trying to establish *ex ante* targets for exchange rate devaluation and domestic inflation after September 1979.

The next few years would be marked by a clear official commitment to conventional policies targeting demand to control inflation. There were recurrent declarations of faith in orthodox policies in spite of consistent failure. Policies adopted included: high interest rates, selective control of credit, cuts in government expenditures and wage squeeze through interference with rules of indexation (to correct for inflation) of wages beyond a certain threshold. High interest rates had the additional attraction of compelling economic agents to find finance abroad, something still not impossible until 1982. The fall in domestic activity stimulated exports, as producers had no domestic outlet for their output. The emphasis on expenditure-switching policies – that is, reliance on exchange devaluation to shift demand towards domestic products – was prevented by difficulties in further real devaluation of the domestic currency given the recent loss of credibility entailed by the attempt to preannounce annual devaluation and inflation. It was also thought that the economy faced productive capacity constraints.

After the end of 1980 preannouncement of inflation was jettisoned and a whole range of orthodox restrictions were introduced. Wages were contained – but

low wages were still to be indexed above inflation – and credit was restricted, but exceptions were established for activities related to exports, energy and agriculture. Restrictions were imposed on the growth of liquidity. Interest rates were allowed to increase in a vain effort to induce Brazilian firms to seek indebtedness abroad. Expenditures, especially investment, by state enterprises were curtailed. Taxes were increased. Inflation accelerated to 120 percent on an annual basis by mid-1981 in spite of all restrictions on demand. It receded only modestly in answer to a favorable harvest.

The adoption of contractionary policies and the wage squeeze led to a fall in the level of activity in the years 1981–1983, especially sharp in 1983 when industrial production fell by more than 10 percent. Contractionary policies were more successful in reversing the trade imbalance which had followed the oil shock. There was a savage deterioration in the terms of trade: after a fall of more than 35 percent between 1977 – when they reached a peak similar to 1973 – and 1980, they fell a further 15.4 percent in the years 1981–1983. In 1983 they were almost 40 percent lower than the 1970–1972 average. A trade deficit of almost US\$3 billion in 1979 and 1980 was modestly reversed in 1981 and 1982. Exports increased rapidly, after falling in 1982, but import contraction played a major role in balance-of-payments adjustment in response to foreign exchange devaluation and import controls.

In 1982 there almost no growth and inflation remained very high. Agricultural production fell 0.4 percent, after growing almost 9 percent in 1980–1981. This was a bitter blow to the government as economic strategy was based on enhancing exports, especially of agricultural products, and, at least in principle, on fostering the substitution of oil consumption by other forms of energy. There was substitution of petrol by alcohol. With the benefit of hindsight there was later much criticism of the Brazilian policy of stimulating alcohol consumption, but this criticism fails to take into account the extremely high future prices of oil forecast by international organisations such as the World Bank. The current account deficit peaked in 1982 at more than US\$16 billion, almost 81 percent of exports, the result of the cumulative effect of high indebtedness and high rates of interest which, including the Brazil spread, rose at their peak above 20 percent.

A change more of form than of substance in economic policies was brought about by the Mexican crisis of August 1982. During a transition period there was financial support by the U.S. Treasury, the Bank for International Settlements and creditor banks. After the elections of November Brazil formally agreed to submit a programme to the IMF. The agreement

with private banks included US\$4.4 billion of new money, refinancing of 1983 amortisations in eight years and unwritten assurances of banks on commercial lines of credit and credit to Brazilian banks. At the end of 1983, negotiations were also concluded with official creditors in the Paris Club. But domestic contractionary policies remained the same.

Relations between the Brazilian authorities and the IMF had been traditionally quite difficult and nothing happened in the 1980s which contributed to improve this record. Between 1983 and 1985 Brazil signed no less than seven letters of intent as changed conditions had an impact on agreed conditionalities. It was initially agreed with the IMF to establish a target of US\$6.9 billion for the current account deficit with an implied trade surplus of US\$6 billion. Inflation was to be reduced to 70 percent. Public sector borrowing requirements and net domestic credit were to be halved. In early 1983 the corrective factor of 1.1 to be applied to half-year re-adjustments which favoured wages whose level was below three minimum wages was abandoned. Average real wages fell 15 percent in 1983. A revised letter of intent was presented almost immediately as targets had to be adjusted to take into account a 30 percent (domestic currency–foreign currency) devaluation of the exchange rate in February 1983. And other revisions followed.

By far the most important development in the relations with the IMF was the success by Brazil in convincing the Fund to accept a revision of the definition of performance criteria in an economy with high inflation. This was about differences on nominal and real concepts in the definition of a deficit. It was impossible to achieve public sector borrowing requirements targets when so much of the nominal deficit reflected high inflation. A new concept of indebtedness was introduced by deducting from public sector borrowing requirements the component that resulted from monetary and foreign exchange corrections of past debt. This was an effort to segregate the effects of indexation from those of the excess of expenditures in relation to revenues. So the concept of operational deficit entered the stage: it was the primary deficit (expenditures less revenues) plus real interest payments. A nominal deficit would include nominal interest payments. The divergence between nominal and operational deficit increases with the rate of inflation and with the level of public debt.

Recession continued in 1983: GDP fell 2.8 percent and the industrial product more than 5 percent. Industrial employment fell 7.5 percent and the level of gross capital formation as a share of GDP fell from 23 percent in 1982 to 18.9 percent in 1983. But what was somewhat surprising was that

investment fell less than could be anticipated by such a sustained reduction in output. The reasons for this are complex. The impact of public expenditure cuts on investment was very hard. Rather than concentrating the cuts in the projects with a lower rate of return the government tended to cut across the board so that completion of many projects was postponed. *Ex ante* rates of return fell significantly. Less productive capacity was created by unit of investment. Prices of capital goods increased significantly as protection favouring domestic products remained very high. Accelerating inflation provided a further stimulus to overinvestment as protection against inflation was sought as had been the case in other episodes of high inflation elsewhere. High inflation also induced a rise in construction costs as contractors sought protection from higher uncertainty concerning their future earnings.

In 1983 there was sustained success in balance-of-payments adjustment as all external targets were met. The current account deficit fell to 2.7 percent GDP. But improvement was more because of import contraction than of export expansion (in relation to targets agreed with IMF). Oil prices fell modestly and the share of domestic oil production in consumption increased to 34.7 percent (from 14 percent in 1979). Imports fell to 6.8 percent of GDP. The impossibility of meeting the nominal targets agreed to with the IMF led a suspension of scheduled disbursements and protracted negotiations on changes in the nature of future targets. With inflows of foreign capital half their peak in 1981 (or 1978, for that matter) and shortcomings in the inflow of IMF resources, arrears accumulated as had happened in the 1930s. Uncertainty led to a widening of the wedge between the official and black market exchange rates and the premium exceeded 100 percent at its peak. Exchange control may have played a role in making Brazil a peculiar case in Latin America as there was limited capital flight compared with other countries. More importantly, a significant share of foreign debt was indexed to the U.S. dollar and, after the late 1970s, borrowers in foreign currency were allowed to hedge their foreign exchange risk by making deposits in the central bank. For all relevant purposes the Brazilian overall foreign debt became a responsibility of the Federal government in another chapter in a long history of socialisation of losses.

All the good work in the balance-of-payments side, however, was obscured by the acceleration of inflation from a plateau of 100 percent to 200 percent per annum as the impact of exchange rate devaluation worked its way through the indexation system and agricultural prices were

under pressure after a second year of reduction in agricultural product. Net foreign transfer, which had peaked at almost 6 percent of GDP in 1974 and generally hovered around 3 percent in the 1970s (1977 excepted), fell after 1980 and became negative after 1982. It was negative for the rest of the 1980s with peaks of almost 5 percent in 1984 and more than 4 percent in 1988. Balance-of-payments restrictions to growth were very early in the 1980s superseded by fiscal constraints as a severe financial crisis hit the Brazilian public sector. There was further deterioration of public accounts in a process that had started in a limited way after the mid-1970s. Public sector savings shrank from 6–8 percent of GDP in 1970–1977 to 3–5 percent in the late 1970s and declined sharply afterwards to become insignificant in 1984 (and negative in 1985). Total savings came to depend almost exclusively on the private sector. A combination of a decline in current revenue as a share of GDP, a rise in current non-interest expenditure and a rise in inflation-corrected interest payments led to public sector borrowing operational (as opposed to nominal) requirements in the 4–5 percent of GDP range, rather in excess of levels in the mid-1970s. The sharp rise in operational public sector borrowing requirements in 1976–1979, however, had been of a totally different nature because it resulted from very high levels of government investment. Total inflation transfers – including inflation tax on holders of cash and inflation transfers related to nonindexed assets held by the financial sector – reached a post-1964 peak of 6.3 percent of GDP in 1980, then stabilised at 4–5 percent compared to the 3–4 percent typical of 1974–1978.

After three years of deep recession, 1984 marked a recovery of the level of economic activity: GDP increased 5.7 percent, led by industrial output which expanded by 7 percent. Favourable growth performance was dominated by exports which increased by 23 percent, a result of the strength of U.S. demand. The trade balance increased to reach more than US\$13 billion as domestic oil production now accounted for almost 50 percent of consumption. The import–GDP ratio fell further to 6.3 percent, the current account deficit disappeared, and more than US\$7 billion were added to the reserves.

Attempted *ex post* autobiographical embellishments by Brazilian policy-makers have prompted much self-congratulation on the achievements of 1984 and the inheritance left to the civilian government that took office in March 1985. But these achievements tended to be concentrated on the balance-of-payments. The annual inflation rate was stable at more than 200 percent despite a better harvest in 1984.

In February 1984, a further waiver was obtained from the IMF and a fifth letter of intent made domestic targets less restrictive. The inflation rate would be halved in relation to 1983. But as annual inflation remained stable around 200 percent a sixth letter of intent was required in September to cope with the impact of such failure on domestic targets. In early 1985 the government engaged in the negotiation of a seventh letter of intent with the IMF which would incorporate rescheduling of debt amortisation payments, but this was aborted by the failure to meet conditionalities for the last quarter of 1984.

As oil imports increased to reach a peak of 52.8 percent of total imports in 1983 – compared to around 30 percent on average in 1976–1978 and 11.5 percent in 1973 – the share of the Organization of the Petroleum Exporting Countries in imports rose to 40 percent in 1984 mostly crowding out the European Community. Exports to the EEC also fell while those to the United States rose spectacularly as the U.S. economy recovered in 1984. The share of exports to OPEC economies doubled to 10 percent after 1979. Manufactured exports rose from 43.6 percent of the total in 1979 to 56 percent in 1984, as the deep recession stimulated producers to find alternative outlets for their output and also by massive GATT-illegal subsidies whose temporary return was allowed by creditor countries unwilling to interfere with the increase in trade surplus required to partly service the foreign debt. These subsidies peaked at 33 percent per unit value of manufactured exports.

Brazil had faced much pressure during the 1973–1979 Tokyo round of multilateral trade negotiations in the General Agreement on Tariffs and Trade concerning the legality of its extensive use of export subsidies. The new Code of Subsidies made it illegal to subsidise exports by means of direct tax rebates and payments above tax rebates of indirect taxes. The United States applied intense pressure to make sure that Brazil would sign this particular code and agreed to discontinue its illegal export subsidies, even if it was to relent later when Brazil needed to substantially increase its trade surplus to service its foreign debt after 1982.

The multilateral trade negotiations in the GATT between 1982 and 1986 were marked by skirmishes between a small group of developing economies, including Brazil and India, and the developed economies with the United States in the forefront. The differences focused on the ‘new themes’ – intellectual property, foreign investment and services – which the developed economies wished included in the agenda and a small group of developing countries which did not.

The year 1985, the first year of the civilian administration of José Sarney, a seasoned old-school politician with cozy links with the military who had been (indirectly) elected vice-president but who became president as a result of the preinauguration illness and subsequent death of Tancredo Neves, may be seen as a muddled interregnum. It marked the failure of still another attempt to do away with inflation by traditional policies. There was the intention in January 1985, in the final stages of the military government, to negotiate with the IMF an agreement similar to that with Mexico that would include a reschedule of foreign debt. But the way was blocked as Brazil had failed to meet targets on nominal debt and operational deficit. Negotiations with the banks were also postponed as an agreement which would result in a reduction of debt service payments (but no debt reduction), following the lines of a Baker Plan, depended on reaching agreement with the IMF. It has been suggested that the IMF tended to become less important for Brazil for two related reasons. The difficulties in the early 1980s had made it clear that direct financial support by the Fund was insufficient to cope with the Brazilian balance-of-payments disequilibrium. And its seal of quality seemed perhaps less essential to guarantee an agreement with the banks. Interim measures postponed a new explicit debt agreement with the banks from the beginning of 1985 until well into 1986.

The policies implemented by the Sarney government, while paying lip-service to orthodoxy, were confused, piecemeal and volatile. Initially monetary and fiscal policies were restrictive. There were cuts in expenditures and a freeze in the hiring of civil servants. Prices were frozen in April and there was an attempt to extend inflation memory beyond the very short term: monetary and exchange rate correction would be defined by the geometrical average of inflation in the three previous months. There was a compression of costs of inputs until mid-year. The following price decompression together with an agricultural supply shock drove monthly inflation back to 14 percent in August.

Friction between ministers for and against orthodox policies led to the fall of the nominally orthodox Minister of Finance, Francisco Dornelles, who had been appointed by his uncle Tancredo Neves before his illness and death, leaving the way open to heterodoxy with the appointment of Dilson Funaro, a *paulista* entrepreneur on the left of the political spectrum of interests supporting the new civilian government. There was less preoccupation with the control of monetary base and a fall in real interest rates was allowed to occur. The economy was back to a monthly inflationary

memory to define monetary and foreign exchange correction: the avowed limited aim was to stabilise inflation at 10 percent monthly. The economy was in the way to full indexation, but public prices lagged as plans to eliminate the public deficit by a fiscal package at the end of the year were shelved.

With inflation at this level it was impossible to maintain wage readjustment on a half-year basis. But there was no clear rule on wage indexation, still officially based on half-year adjustments as established by legislation in 1979. Several options on wage policies were considered: quarterly adjustments; monthly adjustments; *scala mobile* with a trigger of 30 percent (eventually used in the Cruzado Plan of 1986); monthly preset adjustments defined on a quarterly basis (used in the Bresser Plan of 1987). Free negotiations of *abonos* and other temporary measures were allowed while new general policies were defined, but these measures could not be taken into account by price control authorities when agreeing on price increases.

There were good external results in this transitional year as the trade surplus, helped by a fall in oil prices and in spite of a contraction of exports of 5.1 percent, reached US\$1 billion a month. The level of reserves increased to US\$11.6 billion. This allowed Brazil to keep the IMF at arm's length as there was no demand for further resources. Creditor banks were accommodated with an extension of the former agreement. Some recovery of domestic sales compensated for the contraction of exports in relation to 1984: GDP increased 8.1 percent evenly distributed between industry, agriculture and services. But with the inflation accelerating to reach 16.2 percent in January 1986, the economy was heading towards a new plateau of 400–500 percent annual inflation, double the level that had been inherited from the former government.

Alternative interpretations of inflation which underlined the importance of inflationary inertia in a heavily indexed economy had started to gain strength in the early 1980s. Inflation today was to a large extent a result of inflation yesterday; without a dismantling of price indexation conventional demand squeeze was doomed to failure. As annual inflation at first stabilised at 200 percent per annum and then accelerated, ideas evolved into policy proposals. Some proposed that in a transitional period two kinds of money should coexist: old currency and new indexed money. Prices and wages would be voluntarily converted to the new indexed money. Inflation will be eliminated as transition to the new currency became universal. A shock version of stabilisation policies based on the inertial diagnosis, relying on an abrupt end to indexation rules coupled with a freezing of all prices

(including the foreign exchange rate) and wages, on the lines of the rules that had been adopted in Argentina and Israel, began to be seriously considered. But only after several failed stabilisation attempts between 1986 and 1989 and in 1990 and 1991 would these ideas succeed with the Real Plan in 1993 and 1994.

The Cruzado Plan and other Failed Stabilisation Attempts, 1986–1989

The years 1981–1985 had been a period of accelerating inflation and low average economic growth in spite the improved growth performance between 1984 and 1985. Economic policies remained essentially orthodox, following the failure of the *fuite en avant* of 1979–1980. But after the transitional year of 1985 there was a series of policy experiments based on the diagnosis that inertial inflation played a major role in explaining chronic high inflation.

The succession of failed stabilisation attempts in the 1986–1989 period combined different blends of fiscal and monetary policies with devices to break price indexation. The main fragility was related to structural obstacles to fiscal adjustment. The government was unable to stop the deterioration of its capacity to generate savings. There was a high volatility of inflation and growth rates. But on average this continued to be a period of high inflation and economic stagnation. As successive heterodox stabilisation programmes failed it became increasingly difficult to break inflationary inertia as economic agents tended to learn from previous experiences. With the succession of complex sets of different rules concerning price indexation, the scope for judicial disputes involving price indexation was enormously expanded. It would become increasingly difficult for future governments to assess their liability in relation to the lagged financial consequences of the periodical release of ‘skeletons in the cupboard’ involving price indexation by judicial decisions which took a very long time. Financial problems were compounded by the approval of a flawed Constitution in 1988 which contributed to a further deterioration of the central government’s financial position as it decentralised revenues but not responsibility for the corresponding expenditures.

The Cruzado Plan (1986) was the first in a series of attempted stabilisation plans which, in contrast with past plans, included features that indicated a radical change in the explanation of the causes of inflation. It abandoned the previous emphasis on demand inflation and singled out inflationary inertia as the main explanatory variable for persistent inflation. Inertial interpretations of the inflationary process in an indexed economy

had evolved towards two main policy proposals. The one adopted in the Cruzado Plan relied on a heterodox shock framework: currency substitution, price freeze, discontinuation of price indexation mechanisms and neutralisation of the distributive effects of disinflation. The major alternative of a gradual transition to a new currency through a period of co-existence of the old and a temporary indexed currency, together with other elements, would constitute the backbone of the successful *Plano Real* of 1993–1994.

The main features of the Cruzado stabilisation plan reflected the widely different views of policy-makers involved in its formulation and implementation. It bore all the marks of the difficult political accommodation between some of the government's more technically minded policy-makers or advisers and those like Dilson Funaro, the Brazilian industrialist with a taste for heterodoxy in the Ministry of Finance, more aligned to the dominant party in the governing coalition, the Partido do *Movimento Democrático Brasileiro* (PMDB). It was a shock rather than a gradual policy. A new currency was introduced: the cruzado, worth 1,000 cruzeiros.³

All prices in cruzeiros were compulsorily converted into prices in cruzados by taking the average of prices in the past six months. All prices, including rents and the exchange rate, were frozen. Only electricity prices were adjusted by 20 percent as they were considered to have lagged in relation to other prices. There were attempts to neutralise the redistributive impact of the plan. Wages were to be converted in cruzados taking into account their level in the last six months. However, in what critics have singled out as 'concessions to populism' there was an 8 percent further adjustment for the benefit of all wage earners rising to 16 percent in the case of the legal minimum wage. Annual wage negotiations (*dissídios*) would adjust wages by 60 percent of inflation as measured by the cost of living index. A further wage concession was to introduce a mechanism inspired in the Italian *scala mobile* which would trigger an automatic wage adjustment every time inflation reached 20 percent.

Rules had also to be established for the adjustment of contracts involving future payments. There were two types of contracts. There were contracts where interest rates were determined on an *ex post* basis as an addition of

³ The last monetary reform had been in 1967 when the 1942 cruzeiro lost three zeros. Confusingly, after a short period when the monetary unit was the cruzeiro novo there had been a reversal, in 1970, to the name cruzeiro. One cruzado was thus worth 1,000 cruzeiros of, say, 1985, and 1,000,000 of the 1942 cruzeiros.

‘monetary correction’ to the ‘pure’ interest rate component. In this case the new rates simply excluded monetary correction. In the other type of contract the interest rate was fixed *ex ante*. An official table of conversion of interest rates was adopted. It was a *tablita* similar to that of the Argentinean shock stabilisation that had preceded the Cruzado Plan.

Monetary and fiscal policies were left to the discretion of authorities with the idea that they would be adjusted to the speed of remonetisation that was to occur as economic agents showed an increasing willingness to carry cash with the fall in the inflation rate. Fiscal policy was considered to have been defined by the fiscal package of December 1985. This did not take into account that inflationary tax would be lost by stabilisation and also of the impossibility of raising revenue based, as had been usual in the past, on the taxation of nominal capital gains boosted by high inflation. An important step was the end of the *conta de movimento* between the Central Bank and the Banco do Brasil, which had traditionally allowed the Banco do Brasil to circumvent contractionary credit policies.

The success of the plan until mid-1986 was spectacular, with corresponding popular enthusiasm. The illusion that political mobilisation could replace markets in price determination gripped the nation, at least temporarily. The monthly inflation rate fell to 0.1 percent in March 1986 and remained little above 1 percent until July 1986. It was an apparent vindication of those views which stressed the possibility of achieving stability without recession and unemployment.

The increase in purchasing power prompted by the generous wage adjustments in the transition compounded other sources of demand pressure. Economic agents adjusted their precautionary balances to a lower level of inflation and spent more. This led to severe selective demand pressures. There were problems also with the ‘wrong freezing’ of some prices because there was little allowance for the staggered nature of price adjustments in an inflationary economy. Overheating had become clear by mid-June. There were monthly price rises in the 4–5 percent range for used cars and clothing. By mid-year production of consumer durables had increased by one-third in relation to the previous twelve months. Milk had to be subsidised. Beef imports that were intended to cope with the combined effect of a higher demand and supply constraints due to bad weather, were late, insufficient and of bad quality.

Increased monetisation induced by a higher propensity to hold cash explained a significant expansion of money supply. But its increase went beyond the space created by abrupt disinflation. Expected real interest rates

became negative, prices of real assets shot up, the premium on the official foreign exchange rate more than doubled to reach almost 60 percent in mid-year, stock exchange prices rose about 50 percent. There was a fall in income tax collections and expenditures increased as the November elections approached. It was slowly admitted that the operational deficit would reach 2.5 percent of GDP, rather than the 0.5 percent mentioned earlier on by the government, and it became increasingly clear that there was to be either a contraction of demand or an end to the price freeze. Attempts to win over the president in favour of a decision to impose demand-contracting policies in May failed. The idea that stabilisation could be obtained by a costless trick had obvious political appeal.

Small adjustments made in late July – the so-called stop-gap *Cruzadinho* [small Cruzado] Plan – included a timid fiscal package involving compulsory ‘loans’ on fuel, motor car purchases, international airline tickets and foreign exchange sales for travel expenses, some of which were, at least in theory, to be refunded in three years. The government started to attempt to fiddle with the comprehensiveness of the coverage of price indices to avoid triggering the *scala mobile*. Low inflation indices persisted but did not reflect real inflation, as ‘new’ products were marketed, side payments failed to be captured by collected prices and the scarcity of products started to reduce the size of the sample used to measure inflation. Expectation of foreign exchange devaluation led to a leads and lags situation where exports were postponed and imports stockpiled. The difference between the official and parallel market rates increased to 90 percent. Exports fell rapidly (almost 13 percent on an annual basis) in spite of a big but short-lived improvement in the terms of trade. A small devaluation in October was followed by the announcement of a return to a policy of small devaluations to avoid a major over-valuation of the cruzado.

Stage II of the Cruzado Plan at the end of the year was announced after a resounding victory for PMDB, the government party, in the November elections. A fiscal package of about 4 percent of GDP was introduced and public prices – fuel, electricity, telephone and postal services – increased. Revenues were to finance a rather delirious plan of investments aiming at a rate of growth of 7 percent annually. There was much debate on technicalities involving the coverage of price indices and how the *scala mobile* should be applied in an effort to postpone inflationary inertia. Industrial output peaked in September at an annual rate of growth exceeding 12 percent. In 1986 GDP increased by 8 percent, but agricultural production fell almost 8 percent and compounded the demand-related inflationary pressures.

The economy was showing clear signs of over-heating. Inflation returned at full speed and price indexation was reintroduced to adjust the foreign exchange rate and to define the *ex post* rate of return on financial instruments. In the beginning of 1987 monthly inflation had reached almost 17 percent. Attempts to reach a *pacto social* failed, price control ended, and price indexation on a monthly basis was reintroduced.

In early 1986 a new agreement with foreign creditors had been signed. For the first time there was no previous agreement with the International Monetary Fund. The agreement with the banks involved a rescheduling of amortisation payments due in 1985 and the provision that payments due in 1986 were to be held as sight deposits in the Brazilian Central Bank until April 1987. Commercial and inter-bank credit lines were to be maintained at agreed levels. But the Cruzado Plan affected the balance-of-payments unfavourably by the perverse combination of supply and demand shocks. Negative trade balances started to accumulate in the last quarter of the year. Imports were rationed as the level of reserves fell. Foreign debt interest payments to private banks were suspended in February 1987. The official reasons advanced to justify default were to stop the loss of reserves and to prepare the ground for a new phase of negotiations. When Funaro left the Finance Ministry in April, monthly inflation was beyond 20 percent, and the foreign debt was in default.

From mid-1987 to March 1990 three further stabilisation attempts of varying degrees of ambition were made: the Bresser Plan of mid-1987, the *feijão com arroz* [beans and rice] policy of 1988 and the Verão [summer] Plan of early 1989. They failed much faster than the Cruzado Plan. Monthly inflation rate in the last month of the Sarney government (March 1990) was in excess of 80 percent and the average growth rate of GDP in 1987–1989 had been of only 2.2 percent. The return to civilian rule and the establishment of democracy had failed to deliver either low inflation or high growth.

Bresser Pereira, the new Minister of Finance from May 1987, announced modest growth targets and showed some inclination to speak to the IMF in the face of opposition by his own party. There were rumours of a heterodox shock, but, in fact, the Bresser Plan of June 1987 was not an attempt to eliminate inflation completely. Its limited aims were to end the wage *scala mobile* and to reduce the public deficit so as to make it possible to sustain lower rates of inflation. In its more general commitments the plan stressed the need for Central Bank autonomy in defining monetary policy and commitments to unify all Federal government budgets, to improve

budgetary practices and not to resort to monetary expansion to cover deficits.

Prices were frozen but not before several public and administered prices were adjusted. Wages and rents were frozen for three months, but the exchange rate remained flexible. The correction of public and administered prices was not allowed to be taken into account in a correction of wages. Contracts with prefixed nominal interest rates were discounted using a *tablita*. There was an attempt to extend the price prefixation time-span horizon to three months. A new wage indexation rule based on the URP (*Unidade de Referência de Preços*) [Unit of reference of prices] was introduced. Each quarter the values for the URP in the next three months were preset, based on the geometrical average of monthly rates in the previous three months. Some have considered the plan's conception as naive as inflationary inertia was only broken by the price freeze and after that inflation was fully transmitted on a quarterly basis.

There were initial intentions to pursue active fiscal and monetary policies and in particular to reduce public deficit from a projected 6.7 percent of GDP to 3.5 percent. But initial efforts to increase revenues and reduce expenditures were rather modest covering only about one-third of the gap. *A Plano de Coerência Macroeconômica* [Plan of macroeconomic coherence] announced in July was important as the first clearly stated demonstration of concern with fiscal equilibrium since heterodoxy had gained the upper hand in the beginning of 1986. Emphasis was placed on the recovery of government savings which had reached more than 4 percent of GDP in the mid-1970s and were now near zero. A cut in expenditures, including subsidies, coupled with a raise in public prices, which had been eroded in the long term, plus a progressive tax reform was to increase public savings from zero to 5.3 percent of GDP in four years. This would make possible an investment ratio of more than 24 percent of GDP and annual growth of GDP of 7 percent after 1989. Putting public accounts in order was to prove elusive for many years ahead. So would high growth on a sustained basis. In the three remaining years of Sarney's term of office gross fixed capital formation hovered around 23–26 percent of GDP, increasingly affected by high prices of construction and capital goods, while GDP growth averaged only 2.2 percent.

Inflation fell from 26.1 percent in June to 3.1 percent and 6.4 percent in July and August. But lack of popular support, added to the dismantling of price controls, limited the scope of price freezing efforts. It has been contended that, in contrast to the Cruzado Plan, the persistence of significant

monthly rates of inflation is to be explained by the redistributive conflict rather than by demand pressure. Relative prices were again misaligned in the initial price freeze. Already in August some price controls were abandoned and a ceiling of 10 percent established on selective 'emergency' price increases. This ceiling exceeded by far the preset 4.7 percent adjustment of the URP, and the gap created a measure of the plan's failure. Amidst clear signs that fiscal imbalances persisted, monthly inflation almost trebled between September and the end of the year when it reached 14.1 percent. By the end of the year Bresser Pereira was out of the government. There were intense pressures from wage earners to recover the losses entailed by the exclusion of the July inflation of 26.1 percent from wage readjustments. To bow to pressure would put monthly inflation back to its pre-Bresser level. The question became emblematic of the 'skeletons in the cupboard' syndrome which would result from most pre-1993 heterodox stabilisation plans. In the end delayed judicial decisions forced future governments to make the disputed payments.

Exports recovered in the wake of a significant real devaluation of domestic currency and the deficit in the trade balance in the beginning of 1987 was transformed to a surplus after June. The balance of trade in 1987 was in excess of US\$11 billion. But there were no developments in the foreign debt deadlock as a Brazilian proposal to float new long-term bonds to securitise the foreign debt was cold-shouldered by the creditors. Only palliative measures were adopted. By the end of 1987 there was an interim agreement involving interest payments seeking to avoid the reclassification of Brazilian loans to 'value impaired' status in the United States. The moratorium on foreign debt interest was lifted in early 1988 with a payment of US\$1 billion out of US\$4.5 billion due in interest payments.

Economic policy during 1988 deliberately avoided the format of a stabilisation plan: it was referred to as a 'rice and beans' policy, a reference to the most popular Brazilian dish – an indication that it was to remain simple and unpretentious. Targets were modest: monthly inflation was to be stabilised at 15 percent and the deficit gradually reduced to estimated 7–8 percent of GDP. The reduction in public expenditures included a temporary freeze of public sector wages and made possible relative success in public deficit control which was less than 4 percent of GDP in 1988. Monthly inflation rates fell to less than 20 percent with reassurances that there would be no new heterodox plan. But inflationary pressures returned with agricultural difficulties, very high trade surpluses and conversion of foreign debt into equity. Monthly inflation accelerated again to reach 24 percent in July and 27 percent in October.

In 1988 and 1989 there was a significant improvement in export performance. At around US\$34 billion exports were more than 30 percent above their level in 1987 and almost 50 percent above the level of 1986 which had been badly affected by the Cruzado Plan. Part of this is explained by some recovery in the terms of trade, which increased to a level some 15–20 percent above the trough in 1983 and were to remain roughly there until 1993. But this was still some 30 percent below the 1970–1972 average terms of trade.

By the end of June 1988 a preliminary agreement on foreign debt was reached including US\$5.2 billion of 'new money' of which the first tranche of US\$4 billion would cover interest arrears. The balance was conditional on negotiations with the World Bank on specific projects and remained undisbursed. The agreement also included US\$14.4 billion of commercial and interbank credit lines and US\$1.05 billion of debt conversion to exit bonds with a 30 percent discount. In the late 1980s the net inflow of resources (inflow net of amortisation payments) from multilateral banks such as the World Bank and the Inter-American Development Bank had become negative or negligible. In 1989 the net inflow was minus US\$166 million for World Bank loans (gross inflow of US\$903 million) and US\$32 million for those from the IDB (gross inflow of US\$280 million). Interest payments remained substantial at US\$715 and US\$169 million, respectively.

In the month the new Constitution was promulgated – October 1988 – inflation was above 27 percent. The 1988 Constitution was a political landmark in the process of establishing a democratic political regime. It was also an overreaction to the 1967 Constitution approved under the military. The balance-of-power between the central government and the states and *municípios* shifted again in favour of decentralisation. The new Constitution transferred Federal revenues to states and municipalities without transferring responsibility for specific services. It increased earmarking of revenues and labour costs and put Federal expenditures under further strain. It made fiscal adjustment more difficult.

In September 1988 the government failed to convince the IMF to help to reach an agreement with its creditors in an effort to lower the risk of hyperinflation. A social pact to avoid hyperinflation was signed in early November between government, trade unions and employers limiting price and wage adjustments to a ceiling of 26.5 percent in November and 25 percent in December. It included a list of interim measures related to price and wage adjustments, inflation measurement, the format of negotiations and a loose government undertaking to present a plan to put public finances in order. Actual inflation rates were 26.9 percent and 28.8 percent.

‘Beans and rice’ had failed: the annual inflation rate rose from the 400 percent plateau to 1,000 percent, while GDP fell 0.1 percent.

A new hybrid stabilisation plan, the *Plano Verão*, was introduced in early 1989. It included a monetary reform: the cruzado novo (equal to 1,000, 1986 cruzados) was introduced. All indexation was ended or suspended. There was an indeterminate period of price freeze. Wages and rents were converted into cruzados novos at the 1988 annual average. New wage adjustment rules were to be decided in future negotiations. Price increases were to be absorbed immediately in the computation of inflation so as to avoid transmitting old inflation. The exchange rate was devalued by 18 percent (1 novo cruzado equalled US\$1) and was fixed for an indeterminate period. It has been claimed that the technicalities involved in the conversion of contracts including a new *tablita* had a perverse distributive effect in favour of debtors and to the detriment of creditors in the case of contracts with *ex post* price indexation clauses.

The orthodox side of the new plan included an emphasis in demand contraction though a tight monetary policy. Credit to the private sector was restricted and foreign debt conversion into equity suspended. High real interest rates would make it rather expensive to speculate in physical stocks or foreign exchange. Fiscal adjustment would rely on rather ambitious targets for reduction of government current expenditures including wages and privatisation of public-owned assets, among other radical intentions to control expenditure and increase revenue.

The collapse of the Verão Plan was faster than that of its predecessors. The Sarney government lacked credibility and, with the more radical extinction of indexation rules, inflation would creep back much faster than in the previous stabilisation plans. A measure of the initial lack of credibility and of its deepening was that the U.S. dollar rate premium in the unofficial market rose from 70 percent in the beginning of the year to 200 percent in May. This was in spite of record trade surpluses exceeding US\$20 billion on a twelve-month basis in May and US\$16 billion in 1989 as a whole. Inflation fell to 3.6 percent in February but was already 6.1 percent in March. With no fiscal adjustment to speak of real interest rates were increased significantly. Contrary to what had been anticipated by the government, the plan turned out to stimulate an expansion of the economy which would be reflected in the 3.2 percent growth of GDP in 1989.

Offers by the government to trade unions to compensate for real wage losses during the transitional period were deemed insufficient and a series of

strikes marked growing dissatisfaction with the government. After a general strike in mid-March 1989 the first official price readjustments started and monthly inflation reached 7.3 percent. In April and May indexation was reintroduced, prices were officially adjusted and a new wage policy with an implied inflation memory of only a month was approved by Congress.

As inflation accelerated and uncertainty increased there was a spike in imports as purchases were anticipated: imports increased from US\$7.6 billion in the first half of 1989 to US\$10.7 billion in the second half of the year. Government consumption increased by more than then 2 percent of GDP between 1989 and 1990, reflecting the generous pay raises for civil servants in the end of the Sarney era. Public prices lagged behind inflation in some cases by almost 50 percent. The last months of the government were dominated by the fear of hyperinflation. In February 1990 inflation was above 80 percent.

Throughout the 1980s the Brazilian market remained rather closed. Brazil's share of world exports which was 0.9 percent in 1979 peaked at 1.4 percent in 1984, in the middle of the U.S. import boom, and fell back to 1.1 percent in 1989. Between 1984 and 1989 manufactured exports hovered around 53–56 percent of total exports, but semimanufactured exports rose significantly from 11.1 percent to 16.8 percent of total exports. In 1979, two thirds of Brazilian exports had been directed to Europe (EEC and EFTA, 32.9 percent), the United States (19.3 percent) and ALADI (14.7 percent). During the 1980s the shares of ALADI and of the rest of the world were eroded while the U.S. share peaked in the mid-1980s at almost 30 percent and then fell to 24.3 percent in 1989. Europe's share remained roughly constant around 29–33 percent throughout the period.

Even with quite a good trade performance it proved impossible to service the foreign debt as agreed in mid-1988. Deterioration of the balance-of-payments position after the beginning of 1989, with increased profit remittances and repatriation of foreign investment, led to suspension of interest payments on the foreign debt. Deposits were made in domestic currency in accounts in the Brazilian Central Bank. To all purposes any permanent solution of the foreign debt was postponed until 1990 under a new administration. In the 1980s foreign direct investment had varied between US\$1–2.7 billion annually until 1988, with exception of the very low inflow in 1986. After 1988, as the crisis deepened, the inflow of FDI fell to reach less than US\$0.1 billion in 1991.

Successive plans in the 1980s failed to deliver stabilisation. Inflation proved persistent and accelerated from approximately 2–3 percent a month

in the beginning of the 1980s to more than 80 percent in early 1990. Growth performance was also very poor. GDP increased only 22.2 percent and manufacturing industry output only 8.3 percent in the 1980s while population increased 18.8 percent. Average gross fixed capital formation fell to about 18 percent in the middle of the decade compared to the 22–24 percent peaks of the 1970s and only recovered towards the end of the decade. Capital formation was rather less efficient in creating additional productive capacity than in the earlier period because of high prices of capital goods due to protection, high costs of construction and postponement of public projects. Economic agents facing high inflation were induced to purchase real assets, including machinery, with no central concern with additional productive capacity.

The conjunction of a mediocre growth performance after 1980 with the continuous deterioration of the public sector financial position served as background for a growing willingness to reform the long-standing economic strategy based on a strong State presence and significant protection of the domestic market that had prevailed at least since 1930. The deterioration of the financial position of the State shown in the fall in public sector savings from 5.4 percent of GDP in 1981 to –4.7 percent of GDP in 1989, was coupled with a reduction in foreign savings from 4.4 percent of GDP to –0.2 percent of GDP. This acted as a powerful constraint on investment capacity. Internal disequilibria were held responsible for the lack of growth rather than external disequilibrium. Soul searching on what was to be the future role of the State and a limited effort to privatise public-owned assets started to take shape.

The financial weakness of the State resulted in a less active role in the distribution of subsidies. This affected export subsidies which went beyond indirect tax restitutions which were dismantled after 1983 when they reached a peak of 33 percent of the value of manufactured exports. The slow dismantlement of the panoply of subsidies was accompanied after 1987 by a shift of traditionally autarchic trade policies and tariff protection was reduced from 57.5 percent (simple average) in 1987 to 32.4 percent in 1989. It is true that the initial reduction mainly involved high tariffs which were prohibitive, but it had an important demonstration effect as it signalled that further reduction of protection was possible. This was also reflected in a shift of position in relation to foreign economic policy. Rapprochement with Argentina in 1985 – retrospectively, the main achievement of Sarney's government – and participation in the Cairns coalition, which united many efficient agricultural producers who sought

the dismantlement of protection in the developed economies, made easier a transition to a more positive agenda in economic diplomacy.

The long negotiations which preceded the launching of the Uruguay Round of multilateral trade negotiations of the General Agreement on Tariffs and Trade (GATT) in Punta del Este, in September 1986, were marked by continuous divergences in relation to the inclusion of the new issues – services, intellectual property (TRIPS), investment and trade (TRIMS) and high-technology products – and particularly of services. Opposition came from a G-10 coalition of developing countries in which Brazil and India played a prominent role. In Punta del Este, the G-10 was defeated as the new themes were included in the negotiation agenda, although there was some face-saving compromise by placing services in a separate negotiation track. Brazilian policy after Punta del Este increasingly stressed the agricultural *demandeur* aspect in detriment of the purely defensive stance in relation to new themes. Brazil used GATT's dispute settlement mechanism only sparingly before the 1980s. But the incidence of consultations and panels involving Brazil increased significantly in the 1980s. By far the most important dispute concerned Brazilian complaints in relation to bilateral sanctions threatened by the United States. These were based on allegations of persistent Brazilian breaches of intellectual property commitments.

The deterioration of the economic situation in the last year of the Sarney administration underlined the shortcomings of policies adopted since the beginning of the 1980s with a mediocre growth performance being accompanied by the acceleration of inflation approaching hyperinflation. Successive governments, military and civilian, had shown their incapacity or unwillingness to avoid the increased disequilibrium of public accounts. Brazil remained an outcast in the international financial community with the foreign debt question unresolved. Net real resource transfers abroad remained substantial.

The repeated failure of stabilisation efforts in 1986–1989 had important immediate costs. It entailed a cumulative learning process that helped to ingrain inflation. This contributed to making the stabilisation shocks progressively less comprehensive, less effective, and of shorter life. The private sector became more proficient in anticipating what could be the government moves in future stabilisation attempts. Efforts to seek protection from accelerating inflation by anticipating price increases simply aggravated inflation. In the longer term stabilisation efforts, including monetary reforms and complex legislation on the adjustment of contractual provisions, created a larger scope for judicial questioning of governmental

actions which had important, delayed fiscal implications after the mid-1980s.

With the help of hindsight it is not difficult to explain why the first direct presidential elections since 1960 in October–November 1989 – the first ever based on universal suffrage – gave the victory to a rather obscure politician from a peripheral region – the Northeast – who based his campaign on the denunciation of the excesses of State intervention, including those for the benefit of a small caste of highly paid civil servants. That Fernando Collor de Mello, the new President, did not come from the Southeast, nor was linked to any of the main political parties, would have important future political and economic consequences.

Failed Stabilisation and Reforms, 1990–1992

On 15 March 1990 President Fernando Collor de Mello took office amidst widespread expectations that some kind of radical stabilisation policy would be implemented. In fact there were two stabilisation attempts – in 1990 and in 1991 (the so-called Collor Plan I and Collor Plan II), both of which failed. At the same time, an ambitious programme of structural reforms affecting the role of the State – and particularly the privatisation of public assets – and envisaging a radical opening up of the economy started to be implemented. After the failure of Collor II, with the president facing increasing political difficulties economic policy became a damage limitation exercise under Marcílio Marques Moreira. As the president's impeachment on charges of corruption became un-avoidable in mid-1992, a period of turmoil started which lasted until May 1993 when Fernando Henrique Cardoso became Minister of Finance. In 1993–1994, the Real stabilisation plan was successfully implemented and it paved the way for Cardoso's victory in the presidential elections of November 1994.

In contrast with preceding heterodox stabilisation attempts *Plano Brasil Novo* [New Brazil Plan], best known as the Collor Plan I, was widely expected to be implemented in the beginning of the new President's term of office, given the marked deterioration of the economic position, especially the acceleration of monthly inflation beyond 80 percent per month. Its inspiration was the Erhard Plan, adopted in Germany, in 1948, to wipe out excess savings in the hands of economic agents. This made it possible to unfreeze prices without the fear that savings would put pressure on prices in a situation of constrained supply. In Brazil it was rather a question of excess liquidity and demand rather than excess savings.

The Collor Plan I included a price and wage freeze with a commitment to adjust them in such a way as to avoid transmitting the high inflation inherited from the past. Monetary reform involved a simple change in denomination of the currency from cruzado novo back to cruzeiro. About 80 percent of total financial assets were frozen for eighteen months in the form of deposits in the Central Bank earning 'monetary correction' plus 6 percent a year. These deposits were to be freed over a period of eighteen months. Government payments were exempted from freezing and it was possible to settle debts though the transfer of blocked deposits in the Central Bank.

Another pillar of the Plan was to be a fiscal reform which would turn around an operational deficit of 8 percent of GDP into a surplus of 2 percent of GDP. Although there was not much success in implementing a fiscal reform, the fiscal impact of the plan by, among other things, temporarily reducing interest on public debt was of around 5 percent of GDP.

In the first month of inflation which was not contaminated by past inflation, the rate was much above the less than 1 percent widely expected by analysts. In May the monthly inflation rate was back to 7.7 percent – signaling defeat for the Plan. By August it was almost 13 percent and approaching 20 percent in January 1991. Problems of all types undermined the plan. In spite of provisions which established a system of indexation preannouncements, the government decided to skip its commitment in the first month. In fact, operational problems involving the elaboration of a new official price index to be used by the authorities were never solved. The government adopted a threatening stance in relation to the civil service which often created difficulties for its concrete initiatives in the field of reform. This alienated segments of the government machinery which would have been essential for the successful implementation of its stabilisation plan.

It was not without irony that a government which had strongly stressed its criticism towards public policies based on the discretionary choice of winners – for instance, in relation to protectionist policies – should adopt such policies in relation to the release of deposits frozen by the stabilisation plan. In the best tradition of rent-seeking policies, special interests with political clout managed to extract their assets from the clutches of the Leviathan. The breach of property rights was selective. Monetary expansion related to exceptions was substantial and contributed to the plan's failure. Whether because of these *ad hoc* increases in liquidity, or because of deeper reasons affecting the government's ability to have a clear picture about

the pace of required remonetisation, the overall impact on liquidity did contribute to ease the return of inflation. Towards the last quarter of the year the defeat of still another stabilisation attempt was there for all to see.

There were widespread criticisms of the Collor Plan I. Some analysts concentrated on the poor implementation. Others were more concerned with fundamentals. Some of these insisted that inflation was explained by variations in the means of payment and that the freezing of quasi-money was not really relevant as a counter to inflation. Little was known in any case about the 'safe' rate of remonetisation which would be compatible with low inflation. The government in fact abstained from having an active monetary policy. Some commentators feared that by violating property rights in its move to freeze liquidity the government had unreasonably increased the risk of a run towards holding assets in foreign currency. Until then there had been a clear distinction in the capital flight record between Brazil and other Latin American economies with a similar record of high inflation.

Stabilisation measures under Collor Plans I and II were accompanied by a comprehensive reform programme. This included a reform of public administration envisaging a significant shrinking of the number of civil servants, a trade policy reform with the aim of opening up the Brazilian protected market, liberalisation of foreign exchange policy, structural tax reform to sharply reduce exemptions and widespread tax expenditure. There was the explicit intention of privatising much of the rather large Brazilian public sector. The lasting contributions of the Collor government to the much needed structural reforms would prove to be its trade liberalisation element and the beginning of a massive, successful and corruption-free privatisation programme which was deepened after 1994.

The year 1990 was a bad year for growth: GDP fell by almost 5 percent, comfortably breaking the previous record in modern Brazilian economic history of a 3.1 percent contraction in 1981. Agricultural output fell –3.7 percent, reflecting a disastrous performance of crops. Gross fixed capital formation fell from a level above 26 percent of GDP in 1989 – a reflection of the acceleration of inflation – to 20.7 percent. The substantial inherited balance of trade fell to US\$11 billion in 1990, as exports fell by almost 10 percent, and imports increased more than 12 percent in spite of the steep fall in the level of activity as prices were reduced with the beginning of trade liberalisation that year.

A new stabilisation plan – called Collor II – was implemented in early 1991. With rather modest hindsight it seems a desperate affair. It has been

termed as an attempt to delay apocalypse as the government faced problems in selling its debt without increasing interest rates and the financial position of the state of São Paulo was especially fragile. The government decided to bail out debtors through increased liquidity and to try to double its bet. Most of the well known ingredients were there. There was a price freeze and an exchange rate freeze. There were no rules on price unfreezing: it was left at the government's discretion. Wages were converted by the twelve-month average. A new *tablita* was introduced to convert debts based on the assumption that inflation would instantaneously fall to zero. Because there was no monetary reform this made conversions – which clearly involved a discretionary reduction of the present value of credits – particularly vulnerable to future legal questioning. In an effort to break inflationary inertia there was an overhaul of indexation rules with old indices being substituted by a new, forward-looking index. There was an attempt to lengthen the maturity of internal debt through taxation. There was even an upbeat program of investments that intended to counter recession.

The favourable effects were extremely short-lived. Monthly inflation was reduced from 20 percent to around 7 percent and was held there for three months – before it started to rise again. Real interest rates fell significantly then increased again. Wage increases helped a modest reduction in the speed of the decline in the level of activity. By May 1991, Zélia Cardoso de Melo, Collor's first Minister of Finance, was on the way out after failing in her two shots against inflation, amidst a wave of press allegations of administrative misconduct and after having established a rather controversial public image. More would surface before the end of the following year as the President ended up being ousted by an impeachment process because of his own improper conduct.

Marcílio Moreira, the new Minister of Finance, faced an extraordinarily difficult task because of both the unfavourable economic inheritance left by Cardoso de Mello and the rapidly deteriorating political climate, with the President increasingly under pressure from accusations of corruption originating from his own family. The new Minister of Finance interpreted his task as being to hold the fort amidst very bad conditions and concentrate in defusing expectations that the wave of macroeconomic shocks would continue. His tasks ahead were clear: to end the price freeze, return the frozen Collor I deposits, adjust misaligned public prices, slowly improve public accounts and keep inflation from getting totally out of control. The foreign debt question also remained a main issue to be settled.

The government favourably surprised the markets by anticipating the release of the deposits frozen in March 1990. By October 1991 most non-public prices were unfrozen. The misalignment of public prices had been significantly cut by the end of the year. A modest foreign exchange devaluation of 14 percent was undertaken and the exchange rate overvaluation which had prevailed since the beginning of the Collor government was partly corrected. Real interest rates increased steadily from the beginning of the year to reach more than 30 percent on an annual basis at the end of the year. Substantial primary government surpluses were maintained: 3 percent in 1991 and 2.4 percent in 1992. To show its commitment to trade liberalisation the government anticipated the liberalisation time schedule of 1992 and 1993 which had been defined in 1991.

There was some recovery in the level of economic activity in 1991. After a contraction of almost 5 percent in 1990 GDP increased 1 percent in 1991. In 1992 GDP contracted again 0.5 percent. In spite of this dismal performance gross fixed capital formation fell only to 18–19 percent of GDP. In 1991 the trade balance surplus remained at the same level of 1990 at around US\$10.6 billion. This was increased in 1992 to US\$15.5 million as export performance improved. During 1992, especially in the first semester, the level of foreign reserves increased significantly: it was of about US\$9 billion at the end of 1991, doubled in the first semester and remained at the same level until the end of the year. This, besides reflecting the improvement in trade data, resulted from the start of a recovery in inflows of foreign direct investment and transactions related to settlement of arrears of interest payments on the foreign debt.

The net public debt-GDP ratio had increased significantly in the early 1980s to reach a 50 percent plateau in 1984–1985. This was the result of the successive foreign exchange devaluations and the Federal government bail out of the private sector which was heavily indebted in foreign currency when the external crisis struck. It hovered around 50 percent (with a peak of 55.8 percent in 1988) it began to fall following the infringement of property rights entailed by the Collor Plan I. It reached 33 percent in 1993.

A Brazilian proposal on the foreign debt had been unsuccessfully presented in October 1990. It was based on the conversion of foreign debt into unguaranteed forty-five-year bonds together with a bridge loan to cover the payment of arrears. Foreign debt owned by the private sector – only 10 percent of the total – would be excluded from the agreement and related financial flows free from government control. A stop-gap measure had been introduced in the beginning of 1991 as the government started unilaterally

to pay 30 percent of interest payments due on outstanding debt and freed the big state companies to settle their debts independently. In April 1991 an agreement regulated the payment of arrears: 25 percent in cash in a few months, with the rest converted into US\$7.1 billion of new bonds and with some options including fixed interest rates.

By July 1992, an agreement had been reached in principle on a more permanent settlement of the Brazilian foreign debt. After approval by the Senate, the agreement was presented to creditors and new contracts duly signed in November 1993. Negotiations did not involve the IMF. This should be seen as a settlement corresponding to the period of Brazilian borrowing which started in 1966–1967 and ended in 1982 in the same way as the permanent settlement of 1943 had settled the outstanding claims related to Brazilian borrowing between 1824 and 1931.

The Brazilian agreement followed the lines of the other Brady agreements entered by debtors since the late 1980s. These agreements involved different combinations of interest payments reduction and principal reduction not essentially dissimilar from what had happened in 1943. Following the Brady structure, principal of the new debt was guaranteed by United States bonds as collaterals and interest payments were backed by a rolling guarantee. The new thirty-year discount bonds carried LIBOR (London Interbank Offered Rates) plus 13/16 percent as the rate of interest and involved a reduction of 35 percent of the original principal. There was some choice for creditors, but there were ceilings constraining certain types of conversion offered so that not all first options could be accommodated and creditors were redirected to less demanded types of converted bonds. The total issue of new bonds was US\$43.7 billion. Debt reduction achieved in the Brazilian negotiation was lower than that obtained in several other Latin American Brady negotiations, but Brazil also entered into lower guarantee commitments than other debtors. Negotiations on a settlement with official creditors in the Club of Paris were concluded in 1993 and involved US\$13.5 billion.

Following Collor's impeachment in the end of 1992, Vice-President Itamar Franco took office. As a president, Franco confirmed all fears about his mercurial temperament from the beginning of his term of office. There were doubts about interest rate policy, price control and public prices, imprudent comments on public debt default, presidential resistance to privatisation, a fast rotation of ministers and public venting of disagreement with ministers and other members of his administration. In the light of the incredible 'dance of chairs' in the Ministry of Finance between October

1992 and March 1993, during which time Brazil had three different ministers in a row, the choice of Senator and Minister of Foreign Relations Fernando Henrique Cardoso in May 1993 may be seen as the surprisingly successful outcome of a random process. Under Cardoso, the Real Plan would be successfully implemented and, benefitting from the experience acquired in the successive stabilisation failures since 1986, would finally reduce annual inflation to the one-digit zone on a sustained basis.

Of the wide range of reforms promised by Collor at the beginning of his government only two were really important. Both the privatisation of public assets and the opening up of the Brazilian economy were major modernising reforms which gained momentum after 1990. For all his denunciation of the wrongs of government and abuses by the civil service the administrative reform implemented in 1990 was little short of a disaster and its shortcomings contributed to the failure of his stabilisation efforts.

Government-controlled assets included enterprises in a wide range of activities. There were mining and industrial firms producing industrial and agricultural inputs (iron ore, steel, petrochemicals, fertilisers). Provision of many public services was also state-controlled: telecommunications and electricity services (from generation to distribution). There was an important presence of the state in commercial banking. Oil was a state monopoly from extraction to refining. State monopoly in the provision of most public services meant that regulatory institutions had all been captured by providers of services and privatisation of such 'natural monopolies' would be more complex than that affecting more competitive sectors. Privatisation of such state-owned enterprises would require the establishment, almost from scratch, of a more effective regulatory framework.

There had been some timid privatisation initiatives in the 1980s. But besides lip-service they were generally related to the devolution to the private sector of assets of bankrupt firms which had been taken over by the government. Privatisation in the 1990s naturally started with enterprises in competitive sectors and sales amounting to some US\$8.6 billion mostly affected steel and petrochemical producers. There was an emblematic importance in such initial efforts as the first important public-owned modern industrial enterprise, Companhia Siderúrgica Nacional, founded by President Getúlio Vargas in 1940 was successfully privatised. It must be placed on the record that in spite of being undertaken by a government whose record was fundamentally marred by serious findings of improper conduct, the privatisation process of such assets was never questioned in

spite of the whole complex process involving evaluation, auctions and minority stakes.

In 1990, the new government decided to overhaul the traditional trade regime based on high protection of the domestic market. Non-tariff barriers were entirely removed, in particular the import prohibitions which accompanied the import licensing system that Brazil had used almost continuously since 1947. Under GATT's Article XVIII:B it had been possible to limit imports invoking balance-of-payments difficulties. A unilateral tariff reduction schedule was announced in early 1991: the average tariff was to be reduced from 32.2 percent in 1990 to 14.2 percent in the beginning of 1994. In early 1992 this schedule was anticipated by six months so that by mid-1993 the final target had been reached. The final phase of the Uruguay Round negotiations in the GATT which had started in 1986 culminated in Marrakesh in 1994 when the World Trade Organization was also created. All Brazilian tariffs were bound: on industrial products at 35 percent and on some agricultural products at 55 percent. Before the Uruguay Round only 23 percent of Brazilian imports corresponded to bound tariff lines and only 6 percent of the total number of lines were bound.

The most important development of Brazilian commercial policy in the early 1990s was the creation of Mercosul, *Mercado Comum do Sul* [Southern Common Market] established by the Treaty of Asunción on March 1991 to include Argentina, Brazil, Paraguay and Uruguay. This was a development of Brazil's rapprochement with Argentina since the mid-1980s. The initial agreement was that there would be a certain number of exceptions to a zero tariff between members of the common market: for Brazil it affected 324 items. By the end of 1994 it was planned that these would have disappeared with some special treatment of the smaller members. As a common market Mercosur had to adopt a unified external tariff. This was not simple as the interests of Brazil, a significant producer of capital goods and informatics products, conflicted with those of other members. Although Brazil wished to maintain a high tariff on such products, the other members wished to maintain low investment costs.

The Plano Real, 1993–1994

Past experience underlined some of the limitations of previous heterodox attempts to cope with inflation in Brazil. The sustainability of the initial success in controlling inflation had been repeatedly undermined by the lack of a credible position on fiscal adjustment. The difficulty of ensuring that

the transition from the high inflation regime to the low inflation regime would not entail distortion of relative prices suggested that a way out of the package which included sudden monetary reform, and a price freeze had to be found.

A stabilisation strategy was designed in the second half of 1993 beginning in July when another monetary reform of the cut-the-zeros type was undertaken and cruzeiros were transformed into cruzeiros reais at the rate of one thousand to one. The Real Plan then was implemented in three stages. There was a fiscal element negotiated with Congress. This was followed by the creation of new transitional unit of account, the *URV-Unidade Real de Valor* [Real Unit of Value], which existed side by side with the 'old' currency, the cruzeiro real. Finally, in a monetary reform, a new currency, the *real*, substituted the URV. The plan was implemented without the blessing of the International Monetary Fund, which remained unconvinced of the possibility of its success. This was a further irony in the troubled history of Brazilian relations with the institution.

From mid-1993 there was some effort, through a *Programa de Ação Imediata* [Program of Immediate Action], to focus on fiscal imbalances. The breakthrough came in the beginning of 1994 with the significant fiscal adjustment introduced by the *Fundo Social de Emergência* [Emergency Social Fund], through a suspension for two years of legislation on earmarked revenues. There was also increased taxation of financial intermediaries. The government acknowledged that a structural fiscal adjustment would have to include an overhaul of the tax system, reform of social security, recognition of liabilities arising from past stabilisation plans, definition of limits to the fiscal imbalance of states and municipalities and a commitment by all three levels of government to ensure the equilibrium of their accounts on the longer term. But all this had to wait for windows of opportunity in the future and would depend on the government's real commitment to reform. Substantial primary government surpluses were maintained: 2.6 percent in 1993 and 5.1 percent in 1994.

The URV was created as a bridge between the doomed cruzeiro real and the new real. Between March and June 1994 the URV and the cruzeiro real coexisted as units of account. Wages were converted into URVs taking into account their real value in the last four months as this was the inherited indexation horizon. Many conversions were left to free negotiation between economic agents with the government having more interference in oligopolised prices. The objective was to get relative prices 'right' during

the transition period and then implement monetary reform. The URV value was corrected daily. Inflation in cruzeiros reais was very high – 40–50 percent monthly – in the first half of 1994.

Monetary reform in the beginning of July 1994 finally introduced the real with the value of one URV and 2,750 cruzeiros reais, the ruling rate of exchange between the URV and the cruzeiro real. At the time of its introduction the real was also equal to one U.S. dollar. Stability was to be guaranteed by a triple ‘anchor’: the exchange rate backed by a substantial foreign reserve position (US\$40 billion in mid-1994); the commitment to control fiscal deficit through the *Fundo Social de Emergência* arrangement; and a clearly stated intention to limit emissions of new currency and adopt a high interest rate policy. Inflation in reais fell below 10 percent in July and below 1 percent in December.

In spite of Cardoso’s substitution as Minister of Finance in March, when he became a presidential candidate, the implementation of the Real Plan continued without major problems until the end of 1994. In the second half of 1994 there were signs of a repetition of what had happened following the Cruzado Plan as demand for consumer durables overheated, especially in the case of motor cars. The government answered by lowering the tariff on car imports. As the consequences of the Mexican crisis of the end of 1994 started to affect Brazil this move was strongly criticised, especially by those against trade liberalisation. These criticisms tend to disregard the fact that before December the menace being faced by the Real Plan was that the level of imports was too low rather than too high. Imports were important to discipline domestic prices and an excessively large trade surplus would put monetary policy under undue strain.

Negotiations within Mercosur in late 1994 led to the adoption of a regime to cope with the extension of exceptions to free intra-Mercosur trade and a common external tariff varying between zero and 20 percent in steps of two percentage points. But there were three exceptions: products included in a basic national list, capital goods and informatics and telecommunications products. Brazil’s basic initial list originally included 175 items. Brazil’s exceptions for capital goods – some nine hundred items – would converge (from above) to a common external tariff (CET) rate of 14 percent by 2001. Brazil’s exceptions for informatics and telecommunications products – some two hundred items – would converge to a CET rate of 16 percent in 2006. In the early 1990s, Brazilian trade with Argentina increased spectacularly, especially Brazilian exports. The share of Argentina in Brazilian exports increased from 2 percent in 1990 to 9.5 percent in 1994

and the share of imports in total Brazilian imports from 6.8 percent to 10.9 percent. Another important event related to regional trade integration besides Mercosur was that in December 1994 it was agreed in Miami that negotiations should open on a Free Trade Area of the Americas.

Both 1993 and 1994 were very good years from the point of view of growth. GDP growth rates of 4.9 percent and 5.8 percent were the highest since 1986. Gross fixed capital formation rose slightly to reach 20.8 percent of GDP in 1994. As imports increased in 1993 with trade liberalisation and the recovery in the level of economic activity, the trade surplus fell by about US\$2 billion to US\$13 billion. In 1994 it was to fall to US\$10 billion as growth of imports outpaced that of exports in spite of an improvement in the terms of trade of more than 14 percent. Recovery in the inflow of foreign direct investment gained strength in 1993–1994: US\$6.2 billion in 1993 and US\$8.1 billion in 1994.

CONCLUSION

There is a sharp contrast between the fifty years which ended in 1980 and the years which followed to 1994. In the first period Brazil had one of the most favourable growth records in the world, although it faced periodically severe balance-of-payments constraints, fiscal imbalances and relatively high inflation. With the introduction of price indexation in the mid-1960s traditional stabilisation policies required to control inflation became increasingly inefficient. By the end of the 1970s, when the economy suffered a major external shock, price indexation was almost universal.

The period between 1980 and 1994 should be seen as a transitional period following the particularly severe balance-of-payments and debt crisis at the beginning of the 1980s. This developed into a deep financial crisis affecting all levels of public finance. With very high inflation becoming chronic and accelerating there were repeated stabilisation attempts, using first orthodox, then more heterodox policies. But the fiscal element was always insufficiently developed, and the problems raised by price indexation were not properly faced. A long sequence of stabilisation attempts failed.

Growth performance was also extremely disappointing: it was as if the recipe for growth found in the earlier period had been lost. In sharp contrast with the past, the economy grew at low yearly rates, barely enough to maintain a stagnant GDP per capita. Without growth the social shortcomings became more evident. Income inequality continued to be extreme, with

no improvement in the high level of poverty. Corrective policies, including those related to education, were plainly insufficient.

In the early 1990s extremely high inflation continued to be chronic and growth continued to be elusive. The two final years of the transitional 1980–1994 period culminated in the *Plano Real* which was successful in taming inflation and which resulted in the victory of Fernando Henrique Cardoso in the presidential elections of November 1994. The intended way ahead was to maintain stabilisation and at the same time implement a comprehensive program of reforms that would make possible a return to steady and significant economic growth together with an improvement of social conditions.

THE BRAZILIAN ECONOMY, 1994–2004: AN INTERIM ASSESSMENT

Marcelo de Paiva Abreu and Rogério L. F. Werneck

INTRODUCTION

The Brazilian economic agenda after the successful introduction of the *Plano Real* in July 1994 continued to be dominated by efforts to stabilise the economy. The evolution of macroeconomic policies and the constraints they faced under the two administrations of Fernando Henrique Cardoso (1995–2002) is the central concern of this chapter, which is inevitably more speculative than its predecessors because it is based on a more restricted range of published research and lacks a sufficiently long time perspective.

At first, the main economic policy objective of the Cardoso administration was to consolidate the results of the *Plano Real* and to make sure that Brazil's long experience of high inflation was really over. But soon the need to bring public accounts under control and to make a sizable external adjustment would become the main challenges. A major balance of payments crisis early in 1999, immediately after Cardoso's re-election, imposed much overdue drastic changes in economic policy. Further disturbances occurred in 2002, the last year of Cardoso's second term, as financial markets reflected fears that economic policy could be reversed with the likely victory of the opposition presidential candidate, Luiz Inácio Lula da Silva, the trade union leader who had emerged from the bitter fights of organised labour against the military dictatorship in the late 1970s and early 1980s, and one of the principal founders of the Partido dos Trabalhadores (PT) – Workers' Party – in 1980. He had come second to Collor de Mello in the presidential election of 1989 and second to Cardoso in the elections of 1994 and 1998. Lula finally won in 2002 but, somewhat surprisingly, the newly elected government opted for policies that by and large represented a continuation of the orthodox economic policies of its predecessor.

In contrast with the previous fifteen years (1980–1994) there was some success in the period from 1995, in spite of many difficulties. Advances on the stabilisation front required reforms and institution building efforts that brought important changes and a sound foundation for future economic expansion. But effective growth performance over the period continued to be mediocre: between 1994 and 2004 per capita GDP (gross domestic product) increased an average of only 0.9 percent per annum.¹ Together with structural fiscal difficulties, low economic growth imposed strict constraints on policies seeking to alleviate the country's severe social imbalances. For economic data on selected years between 1994 and 2004 see Table 7.1.

CARDOSO I: IMPLEMENTING THE *PLANO REAL*, 1995–1996

During the four years of President Cardoso's first term of office (1995–1998) there was a permanent division within the government concerning the nature of the economic policies to be implemented. This struggle for ascendancy placed policy makers in the Ministry of Finance and the Central Bank in opposition to the self-styled *desenvolvimentistas*, mainly in the ministries of Planning and Telecommunications and in the BNDES – *Banco Nacional de Desenvolvimento Econômico e Social* [National Economic and Social Development Bank]. The first group, headed by Pedro Malan, the Minister of Finance, put consolidation of the control of inflation at the top of the agenda, wanted to preserve the exchange rate as the monetary anchor of the economy, stressed the need for both fiscal and monetary discipline and defended a less protectionist trade policy. Their opponents, headed by José Serra, at first the Minister of Planning, and later the Minister of Health, wanted to give immediate priority to economic growth and favoured a more devalued exchange rate, greater flexibility towards the control of inflation, laxer fiscal and monetary policies and a reversal of trade liberalisation, mainly for the benefit of the influential automotive sector. Nurtured by the President's persistent ambivalence, this division of opinion would lead to a highly inconsistent macro-economic policy, marked by irresolution and halfway compromising decisions that would drag the economy to a serious crisis in the very end of Cardoso's first

¹ There was in March 2007 a significant revision of Brazilian national accounts estimates which mainly revised upwards former GDP estimates for the 2000–2006 period. This new evidence has not been incorporated in this chapter as it was thought that it would still be more relevant to analyse economic policy decisions in the context provided by data available at the time they were taken (see Table 7.1) and not by revised estimates.

Table 7.1. *Brazil, Main Economic Variables, Selected Years, 1994–2004*

	1994	1998	1999	2002	2003	2004
Population, mid-year, million	156.8	165.7	168.7	176.4	179.0	181.6
GDP (1980 = 100)	130.7	144.6	145.7	157.0	157.8	165.5
GDP per capita (1980 = 100)	100.8	105.5	104.9	108.7	107.7	111.3
Gross fixed capital formation as percent of GDP	20.7	19.7	18.9	18.3	17.8	19.6
GDP deflator (1980 = 1)	$5.6 * 10^{10}$	$13.2 * 10^{10}$	$14 * 10^{10}$	$17.9 * 10^{10}$	$20.6 * 10^{10}$	$22.3 * 10^{10}$
GDP deflator yearly rate, percent	2240.2	4.8	4.7	10.2	15.0	8.2
Real exchange rate (1980 = 100)*	69.3	72.7	97.9	96.0	86.9	80.4
Exports, US\$ billion	43.5	51.2	48.0	60.4	73.1	96.5
Imports, US\$ billion	33.1	57.7	49.3	47.2	48.3	62.8
Current account, US\$ billion	-1.7	-33.6	-25.1	-7.7	4.1	11.6
Foreign direct investment inflow, US\$ billion**	1.9	23.3	27.6	18.8	12.9	20.3
Total foreign debt, US\$ billion	148.4	241.6	241.5	227.7	235.4	220.2
Reserves, US\$ billion ***	38.8	44.6	36.3	37.8	49.3	52.9
Terms of trade (1980 = 100)#	113.1	130.7	113.4	115.1	113.4	114.0
Primary surplus, percent of GDP	5.6	0	3.2	3.9	4.3	4.6
Total public debt–GDP ratio, percent	30.4	41.7	49.4	55.5	57.2	51.7
Prime interest rate USA, percent##	4.21	5.35	4.97	1.67	1.13	1.35
Benchmark interest rate, percent###	1383	29.5	26.3	19.1	23.4	16.2

* Real effective exchange rate using wholesale prices in Brazil (IPA-IT) and in its sixteen more important trade partners, weighted by exports of manufactures, Ipeadata. The higher the index the more depreciated the Brazilian currency.

** Net foreign investment, including reinvestment.

*** Central Bank, international liquidity concept.

Ipeadata.

Annual average, Federal funds, Federal Reserve.

Annual nominal interest rates on Federal government paper (Selic rate). Selic stands for *Sistema Especial de Liquidação e Custódia*

Sources: IBGE and the Brazilian Central Bank and International Monetary Fund.

term, after the president had already been reelected. Only in the last quarter of 1998 – when the contagion of the Russian crisis concentrated minds – did the president begin to abandon his ambivalence and the government start to show effective commitment to the adoption of a more consistent economic policy.

The beginning of Cardoso's government was marked by the fallout of the Mexican crisis, the first of a sequence of major external shocks that the first Cardoso government would have to deal with amidst its efforts to consolidate the achievements of the *Plano Real*. While during most of the second half of 1994 the Franco government had been finding ways to increase competition from imports as a way to keep inflationary pressures in selected sectors of the economy under control, after December 1994 the situation was radically changed as Brazil was hit by balance-of-payments difficulties in the wake of the Mexican crisis.

In the first half of 1995 the government announced an ambitious program of reforms that envisaged an overhaul of the public sector, including massive privatisation and reforms of the civil service and of the social security system. But fiscal discipline would have to wait for Cardoso's second term. The government followed a very lax fiscal policy in 1995 and was slow to react to the asymmetrical consequences of the sharp fall of inflation on public accounts. The well-known positive effect of lower inflation on tax revenues was not as strong as could be normally expected because, after such a long high inflation experience, the tax system had been strongly sheltered from the worst effects of inflation. But high inflation had been helping to keep expenditures under control, eroding the real value of budgeted appropriations. Overall public sector primary surplus (the difference between total revenues and total non-interest expenditures) which had reached 5.6 percent of GDP in 1994 was brought down to around zero in 1995 and 1996, before being turned into a deficit of one percent of GDP in 1997.

The *Plano Real* had initially envisaged a *real*–U.S. dollar parity within a R\$/US\$0.93–1.00 band. But the *real* was allowed to appreciate to R\$0.85/U.S.\$ and held around this level from mid-October 1994 to early March 1995, when the exchange rate policy had become a serious bone of contention within the economic team, deeply divided on how to react to the Mexican crisis. A mediated Solomonic solution led to a bungled attempt to widen the band. It was met with a speculative attack that brought about a sizable deterioration of the risk premium of Brazilian bonds over U.S. treasuries, from ten to fifteen percentage points. A new

band, with R\$/US\$0.88–0.93 bounds, was created and an inner band was used as a crawling peg with an unannounced devaluation of 0.6 percent monthly.

This exchange rate regime was to last until early 1999. Combined with a persistently loose fiscal policy, it led to a fast and continuous deterioration of the trade balance that would condemn the first Cardoso government to four years of very tight monetary policy, marked by extremely high real interest rates. Such an unsound macro-economic policy would take a heavy toll. The current account deficit rose from US\$1.8 billion in 1994 to around US\$20 billion in 1995 and 1996 and to more than US\$30 billion in 1997 and 1998. The other side of the coin was, of course, the dramatic rise in the capital account surplus as a result of high interest rates and strong privatisation-related capital inflows.

In a major step to consolidate the low inflation regime, key legislation reducing price and wage indexation was approved by Congress in 1996, allowing the annual consumer inflation rate to fall to 9.6 percent, from 22.4 percent in 1995. Several banks faced problems with the fast transition to a low inflation environment. The Central Bank was forced to intervene and to create a special programme to institutionalise such efforts under the name of *Proer – Programa de Estímulo à Reestruturação e ao Fortalecimento do Sistema Financeiro Nacional* [Programme to foster restructuring and strengthening of the national financial system]. Provisions to cover *Proer*-related losses had reached almost R\$9 billion [around US\$3 billion] in 2002.

The situation of banks owned by the states became especially difficult. Important efforts were made to assure that the states would start to put their accounts in order. There was a comprehensive strengthening of federal control over the finances of subnational governments. Significant incentives were offered to induce states to renegotiate their debt. The most important state banks were privatised. But the idea of privatising the biggest state bank, *Banespa – Banco do Estado de São Paulo* [Bank of the State of São Paulo], that had been under intervention since the end of 1994, met such a strong resistance from the *desenvolvimentista* group that it was almost abandoned in late 1995. Over the following year, the ample access of state governors to federal funds provided by BNDES, in anticipation of privatisation proceeds of electricity-supply companies owned by the states, would open a loophole that significantly undermined initial efforts to impose a hard budget constraint to subnational governments.

In view of the dramatic deterioration of public accounts observed in 1995, it was expected that the government would be engaged in a serious fiscal

adjustment effort during its second year in office. By that time, however, the idea of giving top priority to preparing the ground for a constitutional amendment that would allow the president to be reelected had already gathered strength in Brasilia. With an eye to the October 1996 municipal elections, the *desenvolvimentistas* were particularly forceful in the defense of the reelection project, stressing the need to avoid untimely fiscal adjustment measures that could alienate the president's support, not only in Congress but also among mayors and state governors. Quite on the contrary, the *desenvolvimentistas* pressed for a still more flexible fiscal stance.

Some would say that postponement of the fiscal adjustment was essential to pave the way for reelection of the president, viewed as the only form of making sure that politically complex reforms would continue to be implemented and stabilisation preserved. Others suggest that there were elements of political overkill in the reelection campaign and that the president squandered significant political capital which could have been used to prop more comprehensive reforms, especially in the fiscal field.

CARDOSO I: HEADING FOR A CRISIS, 1997–1998

The year 1997 started well for the government. The constitutional amendment allowing reelection of the president was approved, the risk premium on Brazilian external bonds fell to near four percentage points and foreign direct investment flows were breaking records. Annual consumer inflation expectations had been lowered to around 5 percent. The government seemed convinced that it had plenty of time for correcting the macro-economic imbalances that were leading to the rapid deterioration of the external accounts and unsustainable public indebtedness. But the tug-of-war within the economic team was still going on. The *desenvolvimentistas* were pressing for a new exchange rate regime, lower interest rates, more public investment and faster economic growth. Their opponents in the Ministry of Finance and in the Central Bank feared that the inflationary shock and the destabilisation process that might be entailed by a devaluation could put the achievements of the Real Plan in jeopardy. They argued that, with a tighter fiscal policy, the exchange rate regime could be sustained with much lower interest rates and faster economic growth. However, between the two opposing forces, economic policy was still following the same old line of least resistance, marked by ambivalence, irresolution and procrastination. There was neither any sign that the exchange rate regime was to be abandoned, nor any reasons to believe that a more austere

fiscal policy was to be finally adopted. In fact, fiscal policy was still being loosened up. The *desenvolvimentistas* had just won the latest round in the power struggle, as the government decided that privatisation proceeds, that were supposed to be entirely channeled to redeem public debt, would be partly used to finance a public investment programme.

In the third quarter of 1997, however, Brazil was hit by the shock waves of the Asian crisis. To no avail, the president tried to point out that Brazil was a whale, not an Asian tiger. The crisis exposed the vulnerabilities of the economy. Between the end of September and the end of November foreign exchange reserves fell from US\$62 billion to US\$52 billion and the risk premium on Brazilian bonds rose from four to seven percentage points. The benchmark interest rate, which had fallen to 19 percent in June, had risen to more than 45 percent in November, when the government had to announce a hastily prepared fiscal package. But the gap between promises and deeds turned out to be wide. The government once again revealed a pronounced lack of commitment to the idea of a serious fiscal adjustment. As it became clear that the adjustment had been enough to allow the country to overcome the worst part of the crisis, the proposed measures were either watered down or just not implemented. In April 1998, the situation seemed to have improved as strong capital inflows, stimulated by the sizable differential between domestic and international interest rates, allowed foreign exchange reserves to reach US\$75 billion. By that time, the approaching presidential, gubernatorial and Congressional elections made the government conspicuously anxious to postpone any plans for dealing with the increasingly inconsistent macro-economic policy to the following presidential term. This would prove to be an unwise move.

There was still another big external shock to be faced. In August, two months before the elections, the Brazilian economy would start to suffer the devastating contagion of the Russian crisis, just when the government had made clear how uncommitted to the required macro-economic adjustment it really was. The failure to deliver minimally on the fiscal adjustment side was in open conflict with the sustainability of the strategy of sticking to the crawling-peg regime. A speculative attack against the over-valued currency in the midst of the electoral campaign led to a rapid loss of reserves. By the end of the year the loss had reached US\$30 billion, in spite of a benchmark interest rate raised to around 40 percent. The risk premium on Brazilian external bonds went beyond the fourteen percentage-points mark. Net public debt, which had risen from 30 percent to 33.3 percent of GDP over the 1994–1997 period reached 41.7 percent by the end of the year.

The economy's growth performance had been declining since the 5.9 percent increase in GDP in 1994. Over the 1995–1997 period, GDP increased on average 3.3 percent a year. In 1998, however, the economy stagnated. Fixed capital formation had improved slightly in 1994 to 20.8 percent of GDP but fell to an average 19.8 percent in 1995–1998.

As the crisis deepened, the government found itself in a very vulnerable position. Cardoso was forced to deliver a rather tough speech as presidential candidate stressing that a major fiscal adjustment would be implemented in the beginning of his new term of office, if he were elected. Contacts with the International Monetary Fund that had started in September were intensified immediately after his reelection in the first round in early October. A scandal triggered by wiretapping of privatisation deals involving members of the economic team left the government even more off balance at an already trying moment. In December a program involving a fiscal adjustment effort of about 4 percent of GDP was approved by the IMF. The preservation of the crawling-peg exchange rate regime was a central point of the program. The financing package totaled US\$43 billion: about US\$18 billion of IMF resources, US\$15 billion from the Bank for International Settlements and Japan and US\$5 billion each from the World Bank and the Inter-American Development Bank.

In late December 1998 Congress approved a rather watered down social security reform, casting additional doubts on the sustainability of fiscal accounts. A few weeks later, in the beginning of 1999, at the outset of Cardoso's second term, the announcement by former president Itamar Franco, then governor of the state of Minas Gerais, of a moratorium on the state's foreign debt proved to be the last straw for the crawling-peg regime. Its abandonment, in mid-January, after the substitution of Gustavo Franco, the Central Bank governor, involved initially an attempt to avoid uncontrolled devaluation by widening the exchange-rate fluctuation band to between R\$1.20/US\$ and R\$1.32/US\$. When the attempt proved unsuccessful, the run against the *real* gathered overwhelming strength, with a loss of US\$14 billion of reserves in two days. The government was forced to accept a much bigger devaluation. In late January the exchange rate had already jumped to almost than R\$2/US\$. A peak of R\$2.16/US\$ would be reached in early March.

Whatever the collective hindsight nowadays may be, both sides of the economic divide within the government and most analysts at the time believed that a significant devaluation of the *real* would mean a return to much higher inflation with foreseeable important political implications.

Allegations that the Cardoso administration postponed an overhaul of its economic policies because of the elections in October 1998 are not groundless. But it is also true that the opposition's economic program was clearly unsound and that a victory by the opposition would have meant, almost certainly, an even more serious economic crisis.

CARDOSO II: DEVALUATION AND SHORT-LIVED
RECOVERY, 1999–2001

In the somewhat chaotic aftermath of the devaluation, in the first weeks of the second Cardoso administration at the beginning of 1999, the difficulties that had to be faced were much amplified by the alienation of the support of the G7 and the IMF and by the fact that, for a while, the Central Bank remained totally crippled. Both the G7 and the IMF blamed the government for lack of wholehearted commitment to the preservation of the crawling peg that had been a key justification for the December bail out package. Finance Minister Malan and the rest of the economic team had survived the crisis. But amidst the financial turmoil, the government decided to make another change in the governorship of the Central Bank. Over a two-month period the Central Bank had to operate under the leadership of three different governors. The turning point came in early March with the appointment of a new Central Bank board, led by yet another governor, Armínio Fraga, a highly regarded economist with Wall Street experience. That opened the way for the announcement of a new stabilisation plan to be implemented under the agreement that had been signed with the IMF three months earlier, just before devaluation. The program had three main objectives. The first objective was to reestablish fiscal sustainability, in view of the sizable increase in public indebtedness caused by the impact of devaluation on the dollar-linked part of the debt. The second objective was to ensure that the external accounts would be compatible with the much narrower foreign-financing possibilities with which the country now had to cope. And the third objective was to keep inflation under control, despite the strong inflationary shock that had been triggered by the devaluation.

The following months would witness a fast confidence-building process, in the wake of a powerful virtuous circle. It is hard to establish which factor had precedence in this process. But key roles were certainly played by the surprisingly low impact of the devaluation on inflation and the recognition that the government was at last being successful in its effort

to make the politically demanding fiscal-adjustment effort feasible. The inflationary shock stemming from the devaluation proved to be much weaker than anticipated. And skepticism about the possibility of extracting from Congress the challenging fiscal-adjustment program that had been announced was greatly reduced.

Rising optimism on both inflation and fiscal adjustment led to a rapid appreciation of the nominal exchange rate, as foreign capital inflows were restored. That, in turn, opened the way for a dramatic fall in interest rates, as the Central Bank determinedly brought down the benchmark rate from 45 percent per year in early March to less than 20 percent in late July. Plummeting interest rates and a much less depreciated exchange rate brought about a drastic reassessment of the sustainability of fiscal accounts, allowing the worst misgivings about the public debt to be quickly dismissed. Expectations about the level of activity also changed radically. In March, the government had announced that GDP could fall by as much as 3.5 to 4 percent in 1999. But in the end of second quarter, the size of the expected fall was being quickly reduced to zero, in anticipation of a much less costly slow down that in the end would still allow the economy to show a positive growth rate of 0.8 percent in 1999. By that time, the Central Bank was sufficiently comfortable to announce that the newly launched inflation-targeting policy would aim at a rate of 8 percent per year in 1999 and 6 percent in 2000.

Despite the rapid overall improvement of economic indicators, there was a serious disappointment to be faced. By late 1999, it was becoming clear that the response of the trade balance to the devaluation would take much more time than had been anticipated. The simple elimination of the US\$6 billion trade-balance deficit observed in 1998 was widely seen as an insufficient adjustment – by no means comparable to the spectacular improvement that was expected when the devaluation was at its peak in early 1999. It is true that under the newly adopted flexible exchange-rate regime, the initial overshooting was followed by a rapid revaluation of the *real*. But even so, in early 2000 the US\$/R\$ exchange rate was still more than 30 percent below its nominal level before the devaluation. Taking into account any reasonable domestic price deflator, that meant a very sizable real depreciation that in due time should bring about a much stronger adjustment in the trade balance than had been observed until then. However, lingering pessimism over the trade balance, fuelled by disappointment with the initial response of the trade accounts, would lead to a much overblown debate on whether the situation called for

more interventionist trade and industrial policies. Though the economic team resisted such policies, they continued to be fiercely defended by the *desenvolvimentistas* till the very end of Cardoso's second term, and remained an important divide within the government.

Worries about the trade balance notwithstanding, external accounts in early 2000 were in much better shape than in late 1998. The Brazilian economy had left the turbulence behind. Fiscal targets accorded with the IMF had been achieved and inflation was under control. The economy seemed ready again for a resumption of growth. In fact, economically, 2000 was to be by far the best year of Cardoso's second term. Annual consumer price inflation was kept at 6 percent, exactly as targeted by the Central Bank. The fiscal situation caused much less concern. The strong fiscal adjustment observed since the Russian crisis allowed the public sector primary surplus to reach 3.3 percent of GDP in 2000, in sharp contrast to a deficit of almost one percent of GDP in 1997. It is true that it had been a low quality adjustment that was strongly based on highly distorting cumulative taxes, given the political difficulties involved in expenditure slicing. The gross tax burden increased from 29 percent of GDP in 1997 to 31.7 percent in 1999. But misgivings about fiscal sustainability faded away as the adjustment seemed large enough to keep public-sector debt stabilised at around 50 percent of GDP, particularly when a newly approved Fiscal Responsibility Law ensured that expenditures would remain strictly limited to the available means at all government levels (federal, state, and local). But the highlight of success of the macro-economic policy adopted since the devaluation, with full support from the International Monetary Fund, was that economic recovery was finally in sight. The GDP growth rate reached 4.4 percent in 2000.

By the end of 2000, the impact of the sizable exchange-rate devaluation on external accounts was still unimpressive and much more limited than anticipated. Exports responded sluggishly, hampered by falling export prices, imports were not reduced as expected, and the economy's current account deficit remained well above 4 percent of GDP. However, a record inflow of US\$31 billion of foreign direct investment in 2000, in the wake of important public-asset sales, was more than enough to cover the current account deficit of US\$25 billion. There was a widespread view that sound macroeconomic policy and the prospect of sustained economic growth might be able to ensure the inflow of foreign capital that would be required to keep the expanding economy's external-financing problems at bay. Despite lingering pessimism over the trade balance, the country

seemed to have sufficient leeway to wait for the slow effects of the devaluation on the external accounts to be fully felt.

Seen from early 2001, therefore, Brazil's economic prospects looked quite promising. What was envisaged by the business community was a virtuous-circle scenario involving economic and political aspects. With the economy on a new low-inflation steady-growth path (expanding at a rate of 4 percent per year), the government coalition would be bound to win the presidential elections in late 2002 after three years of uninterrupted prosperity. Economic policy continuity would open the way for a longer period of sustained economic growth.

Such widespread optimism faded away quickly over the following months. In the course of 2001, the external environment quickly became much less favorable. Hopes that bad news about the slowdown of the United States economy, after a decade-long expansion, were not to be taken very seriously, as a fast recovery was the most probable outcome, would soon prove to be unfounded. In February, the economic situation in neighbouring Argentina (which was supposed to have just found some respite with the approval of another large IMF support program in the very end of 2000) began to deteriorate quickly, exposing Brazil to still another wave of contagion. As markets once again tried to discern what could be the effects on the Brazilian economy of a worst-case scenario in Argentina, when the world economic outlook was becoming gloomier, the exchange rate started what would prove to be a new and long depreciation movement. In March, the Central Bank was forced to interrupt the steady slackening of monetary policy that had been started two years before. Interest rates had to be hiked again.

The growing uncertainty stemming from the rapidly worsening external environment was considerably aggravated by unconnected domestic troubles. Serious political strife within the complex government coalition in Congress started to raise doubts about the outcome of the 2002 presidential election, and to stir up fears that a newly elected government of the left could impose some sort of debt default. In the municipal elections held only six months earlier, in November 2000, the national campaign of the Workers' Party (PT) had been centered on an informal plebiscite in which voters had been asked whether or not the public debt and the country's external debt should be paid back. The worries were amplified in April 2001 when it became suddenly clear that the country was in the middle of an alarming energy crisis, caused by mismanagement of an excess-demand situation in the largely hydropower-based electricity-supply industry. The

need to impose urgent but highly unpopular electricity rationing measures and to abort economic growth made the government seem even less capable of securing a favourable result in the approaching presidential election, at a time when the main opposition candidate, Luiz Inácio Lula da Silva, from the Workers' Party (PT), was leading the polls by a wide margin. The energy shortage looked like a final blow to hopes of keeping the economy expanding at a reasonably quick pace over the second half of the presidential term.

These domestic troubles, however, would prove to be less damaging than initially anticipated. First, political infighting in the government coalition in Congress lost momentum and receded to less internecine quarrels. Second, the response to the electricity rationing program proved to be surprisingly positive, particularly among residential consumers. Soon it became clear that with a slight degree of luck regarding the intensity of rainfall over the following season, the rationing measures could be substantially relaxed by early 2002.

Even so, in late August – just before Brazil was exposed to a new wave of difficulties triggered by the terrorist attacks on New York and Washington, DC – the economy already seemed much weaker than eight months before. Because of the growing uncertainty, the exchange rate experienced another 25 percent depreciation, which caused considerable additional strain on inflation control. Though the benchmark interest rate had been lifted to 19 percent (from 15.25 percent in mid-February), the Central Bank was starting to admit that it would be hard to keep the annual inflation rate below 6 percent. After industrial output plunged in the second quarter, as consumer sentiment and business confidence were badly hit by the string of bad news coming from both the external and the domestic fronts, forecasts for GDP growth rate in 2001 had been slashed from 4.5 percent to 2 percent or even less, anticipating the 1.3 percent growth rate that would be effectively observed. Much higher interest rates and the even more devalued currency had saddled the public-sector with a significantly heavier debt burden, stoking misgivings in financial markets about the sustainability of fiscal accounts. In August, concern over the destabilising effects that a financial debacle in Argentina might have on the much weakened Brazilian economy led to a fast and successful negotiation of a new US\$15 billion support program with the IMF.

For Brazil, the external economic uncertainty brought by the terrorist attacks of 11 September meant a sudden deepening of difficulties that, to a certain degree, the country was already expecting. For months, the

Brazilian economy had been bracing itself to deal with increasing external financing difficulties, as the world economy moved into an unequivocal recession and international investors were becoming extremely risk-averse. What was especially feared was a critical deterioration of the economic situation in Argentina and the potential for loss of confidence that could stem from widespread pessimism in financial markets about the outcome of the Brazilian presidential election. The sudden external shock triggered by terrorist attacks brought about severe external financing difficulties even before those two feared problems had materialised.

CARDOSO II: UNDER THE SHADOW OF POLITICAL
UNCERTAINTY, 2002

The year 2002 started under a relatively calm climate. The economic consequences of 11 September had proved to be less adverse than had been feared after all. The country was leaving the energy crisis behind, as a favourable rain season was replenishing hydroelectric dams, political infighting within the government coalition seemed to have receded and the currency was strengthening. Financial markets were even starting to nurture the idea that, after all, a government-supported candidate could win the presidential election in November. During the second quarter of 2002, however, it became increasingly clear that Senator José Serra, the candidate of Cardoso's Brazilian Social Democratic Party (PSDB), would not be able to beat the frontrunner, Lula da Silva, the candidate of the Workers' Party (PT). The Liberal Front Party (PFL), which comprised a sizable part of the broad political coalition that had been assembled around President Cardoso, had quit the government immediately after a federal police raid led to a campaign funding scandal that brought down its own candidate for the presidency (former President Sarney's daughter). It was determined not to endorse Serra in any circumstance. Even in Serra's own party, full support was difficult to secure. An attempt to attract the endorsement of the notoriously fractious centre-right Brazilian Democratic Movement Party (PMDB) to Serra's ticket had a very limited success. Large segments of the catch-all PMDB decided to steer their own independent courses.

As doubts over the outcome of the presidential election quickly vanished and the idea that Lula might win became more concrete, mounting fears about the newly elected government's economic policy and a possible debt default gave rise to devastating destabilising forces driven by wild

anticipatory movements in financial markets. The nominal exchange-rate, which was at less than R\$2.4/US\$ in early March reached the 3.4 mark in the end of July. The currency had lost 30 percent of its value. At that point, international financial markets were demanding a staggering risk premium of twenty-four percentage points above the interest paid on U.S. treasuries in order to hold Brazilian external-debt bonds.

Alarm over the rapid deterioration of the economic situation led the government's economic team to approach the leadership of the Workers' Party (PT) in order to negotiate initiatives that could help to control the turmoil in financial markets. Within the Workers' Party, an effort to soften the more radical planks of the party's economic platform was already under way. Moderate party leaders perceived that the mounting destabilisation process could bring severe strain to the newly elected government and even put Lula's seemingly assured victory in jeopardy. In a statement in late June, presented as an open letter to the Brazilian people, Lula tried to reassure financial markets that he was committed to a sound macro-economic policy and that investors had nothing to fear. But the markets were unconvinced.

In August, as the word panic started to be used all too often to describe the degree of unrest observed in financial markets, a major new development took place. Since at least June, the government had been trying to negotiate a new loan agreement with the International Monetary Fund. But many difficulties had to be faced. At first, the extension of credit to bail out yet another large emerging market economy – just after Argentina and Turkey – met with strong resistance from the main industrial economies. But Brazil was not the only South American country facing financial destabilisation. Less than eight months after having been bailed out, Argentina was again facing serious problems, amidst a devastating banking crisis that had crossed the River Plate and was imposing serious financial distress to neighbouring Uruguay. Concern over the consequences for the world economy of the whole region being sucked into a huge economic crisis rapidly allowed resistances to be broken, giving way to more pragmatic stances in the industrial economies.

During July the idea that at least some of the troubled South American economies had to be duly assisted gathered strength in Washington, DC. Though Argentina was considered to be a hopeless case, the small-scale bailing out of Uruguay seemed not only defensible but easy. But the Brazilian case looked more challenging. The mobilisation of the required resources would be much more demanding and the idea of signing a loan

agreement with an outgoing government, without any guarantee that it would be honoured by the newly elected government, seemed untenable. But five years before, in 1997, a similar difficulty had been successfully faced in South Korea, when the terms of an urgent bail out package signed with an outgoing government had to be approved in a preelection deal, all candidates pledging to honour them. During July the economic team had been trying to convince the leadership of the Workers' Party (PT) of the importance of creating the required conditions for making a similar deal possible before the election.

But party leaders were clearly split on that issue. The idea of controlling the worrying destabilisation process entailed by the mounting turmoil in financial markets seemed undoubtedly urgent. Underlining Lula's commitment to a sound economic policy would also be helpful to bring swing conservative middle-class voters to the candidate's camp. On the other hand, after so many years of unrelenting IMF bashing, a formal pledge to honour the main terms of an agreement with the International Monetary Fund was seen by the party's left-wingers as an unacceptable surrender. It was also feared that the deal could make Lula lose faithful radical-left voters. At the end, moderate views prevailed.

In early August the IMF announced a new agreement with Brazil involving a US\$30 billion loan – the largest ever made by the institution – over a fifteen-month period. Only US\$6 billion were to be disbursed before the end of Cardoso's presidential term, though the Central Bank would also have another US\$10 billion available to keep external financing difficulties at bay, as the Fund relaxed constraints on use of the country's foreign reserves imposed by the previous agreement. The remaining disbursements, amounting to a carrot of US\$24 billion offered to the newly elected government, would be made during the first year of the following presidential term. Though there was no previous explicit endorsement by the leading presidential candidates, two weeks later, after some natural hesitation, they all pledged to honour the main measures that constituted the backbone of the agreement, in separate meetings with President Cardoso. This marked an extremely important rite of passage, particularly for Lula, as it gave him a freer hand in what had become a clear effort to quickly move towards the centre ground.

The financial markets showed some relief, but remained doubtful of the sincerity of Lula's change. The risk premium of Brazilian external-debt bonds (over interest paid on U.S. Treasury securities) fell from twenty-four percentage points in late July to around sixteen percentage points

in early September. After a four-month long depreciation, the currency strengthened by 12 percent during August. But the respite did not last long. In September it became strikingly clear that Lula would win the first round of the presidential election in early October and, endorsed by the remaining opposition candidates, be in a very favourable position to beat Serra in the run-off election. With the growing unrest in financial markets, the currency lost more than 20 percent of its value in September. By the end of the month, just before Election Day, the exchange rate had reached R\$3.9/US\$ and the risk premium on Brazilian external bonds had risen again by twenty-four percentage points.

Even before Lula's victory over Serra in the second round of the presidential elections, the leadership of the Workers' Party (PT) had launched a major effort to convince public opinion, and financial markets in particular, that the newly elected government had abandoned the previous radical talk and would adopt a quite orthodox macroeconomic policy, following the paths of the outgoing government. As the new economic team took shape and seemed to give credibility to what was being promised, skepticism slowly receded, giving way to what would be a long confidence building process bound to be stretched for many months, well into Lula's presidential term.

But calming the financial markets would require stronger measures. Immediately after the first round of the election, the Central Bank finally set off what would prove to be a very sizable three-movement rise in interest rates. Over a period of less than 60 days, the basic rate was raised from 18 percent to 25 percent. By year end, the exchange rate, at R\$3.5/US\$, was in a clear appreciating trend, and the risk premium of Brazilian external bonds, at 14 percentage points, was falling steadily.

The wave of high uncertainty that had started to be formed as early as 2001 and had gathered much strength after March 2002 had taken its toll. The economy expanded only 1.9 percent in 2002, bringing the average GDP growth rate of Cardoso's second term to a mere 2.1 percent per year. The flexible exchange-rate regime had helped to make the economy bend without breaking. But the major price shock entailed by the vast depreciation of the *real*, had made the expected annual consumer-price inflation close the year well above the two-digit threshold, at more than 13 percent, putting the newly adopted inflation-targeting policy under strain. On the positive side, however, the depreciation had also speeded up the long-awaited adjustment that seemed to be in store for the external accounts, since the early 1999 devaluation. All in all, the trade balance had shown

an improvement of nearly US\$20 billion over Cardoso's second term, and the current account deficit had narrowed from US\$33.4 billion in 1998 to US\$7.6 billion in 2002.

The fiscal regime had also gone through a drastic change. A Fiscal Responsibility Law, approved by Congress in 2000, had finally imposed budgetary discipline on subnational governments. In contrast to the previous presidential term, for the fourth consecutive year, the public sector had been generating a primary surplus between 3 and 4 percent of GDP, in order to meet interest payments and keep public debt on a sustainable path. However, as a large part of the public debt was dollar-linked, the sharp depreciation of the exchange rate observed during the last half of Cardoso's second term had cast new doubts on the sustainability of the debt, particularly after interest rates had to be briskly raised in late 2002. But most analysts agreed that, as long as the exchange-rate overshooting could be reverted and interest rates quickly reduced to less extreme levels, the reasons for fearing that the public debt could slip out of control would rapidly fade away.

As Cardoso's second term reached its end, it became quite clear that a political change of great economic importance had taken place. After three unsuccessful attempts, the Workers' Party (PT) had finally won the presidential election. But, as it advanced towards its victory, the party had dusted off old beliefs, dropped a good deal of radical talk and hastily adopted a brand new economic programme that in fact endorsed the essence of the outgoing government's macroeconomic policy. That was no small change. It meant that the alarming chasm, that had separated government and opposition in economic matters for so long, was giving way to an astonishingly broad common ground of shared ideas.

The events of 2002 are still too recent to allow a complete understanding of the complex process behind the metamorphosis the Workers' Party (PT) went through in 2002. But it is clear that the June statement, in the form of an open letter from Lula to the Brazilian people, was the result of a very tough negotiation within the party and was only approved under the general understanding that it would represent the farthest the party would go in its movement towards the Centre. The fact that party's *aggiornamento* would advance well beyond that point in the following months has to be explained by the dynamics of the electoral campaign and the complex relationship that was established between the Workers' Party and the government, in a tacit joint effort to curb the worst effects of the mounting destabilisation that was under way. At first, that relationship had

to involve subtle games, as the one that finally made Lula feel constrained to publicly pledge to honour the general terms of the agreement that was being signed with the IMF in mid-August. But soon it had evolved to a much more explicit interchange of ideas, based on levels of understanding and collaboration that would seem completely unthinkable a few months before. The outgoing Cardoso government should receive a substantial share of the credit for the smoothing of a transition that had promised to be so problematic.

Reforms, Privatisation and Trade Under Cardoso

Under the Cardoso administrations, efforts to deepen the programme of economic reforms started in the early 1990s were uneven. Privatisation advanced beyond manufacturing to reach public utilities, raising complex regulatory problems not always well solved. After some reversal at the beginning of the first presidential term, trade liberalisation was deepened although at a much slower pace than in the earlier period. Great efforts were directed to put public accounts in order. This involved recognition of accumulated hidden liabilities, the building up of a legal framework to assure a hard budget constraint at all government levels, and intervention in state banks followed by privatisation. There was also a major effort to reduce the vulnerability of private banks through a series of interventions and government-supervised sales, as mentioned above. The results of attempts to reform the social security system were, however, rather meagre under Cardoso.

Some reforms were quite successful. Major constitutional amendments included legislation that opened the way to privatisation of public enterprises in telecommunications, mining and electricity supply. Sales involved highly valuable assets such as Companhia Vale do Rio Doce, a world leader in iron ore exports, and also public enterprises whose privatisation required a major overhaul of the regulatory framework, especially in the telecommunications and electricity-supply sectors. New agencies were created to regulate activities in the oil, electricity and telecommunications industries, with much more autonomy than had been the case in the past. Regulation in the oil sector was complicated by the dominant role of publicly-controlled *Petrobras*. The government maintained a golden share when Vale do Rio Doce was privatised. By far the least satisfactory policies involved the electricity-supply sector, with the government failing to define a clear regulatory framework able to stimulate new investments.

Privatisation revenues in the whole Cardoso period amounted to more than US\$87 billion.

No major tax reform was implemented during Cardoso's period. The tax burden remained around 29.4 percent of GDP in 1995–1998, but jumped to an average of 33.5 percent of GDP in 1999–2002 and reached 35.9 percent of GDP in 2004, already in the Lula government. In order to minimise transfers to subnational governments, the federal government showed a clear preference for increasing the importance of taxes not affected by constitutional revenue-sharing provisions. A new tax on financial transactions created in 1996, the *CPMF – Contribuição Provisória sobre Movimentações Financeiras* [Provisional contribution on financial transactions], would prove to be far from provisional. Avoidance of revenue sharing also explain the increasing importance of other contributions such as *PIS – Programa de Integração Social* [Social Integration Programme] and *Cofins – Contribuição para o Financiamento da Seguridade Social* [contribution to finance social security]. Being imposed on turnover and not on value added, those cumulative taxes were marked by well-known highly distortionary effects, including taxation of exports in a hard to rebate way. Even in the case of the value added tax collected by the states (*ICMS*), only in 1996 was legislation introduced to extend rebates to exports of nonindustrial products. But both the *PIS* and the *Cofins* were later transformed into noncumulative taxes: the *PIS* in 2002, the *Cofins* in early 2004, already in the Lula government.

Foreign direct investment flows increased dramatically as privatisation efforts moved from the simpler cases of state-owned manufacturing firms to state-owned public utilities, both at the federal and state level. Foreign direct investment (FDI) rose from US\$1.9 billion in 1994 to US\$15.3 billion in 1997 and to a peak of US\$31 billion in 2000. Then it started to fall in the Lula government, reaching US\$12.9 billion in 2003 and recovering to US\$20.3 billion in 2004. In 1995 about two-thirds of FDI stock in Brazil was in the industrial sector and one-third in services. In 2000, the shares had been reversed.

Deterioration of the balance-of-payments position in early 1995 provided a platform for active promotion of a reversal of trade liberalisation by the *desenvolvimentistas*. The applied average tariff rose from 11.2 percent in 1994 to a peak of 14.7 percent in 1997 and then started to fall again. In 2002 it was still above its 1994 level. This affected more significantly the automotive sector – effective protection on motor cars rose to no less than 270 percent in 1996 – and also capital goods and industrial inputs whose tariffs were at or near the 35 percent level bound in the World

Trade Organization (WTO). Price effects were significant, however, as the overvaluation of the *real* made imports cheaper. The share of imports in domestic consumption which had risen from 4.5 percent in 1989 to 10.6 percent in 1994, continued to increase to reach a peak of 22.5 percent in 1998. It was then reversed in the wake of the 1999 foreign exchange devaluation, falling to 13.9 percent in 2003.

Total exports increased only slightly above 4 percent per annum in the whole Cardoso period and Brazil lost market share in world exports. This loss was reversed only in 2003, already in the Lula government. Trade with Mercosur, and especially with Argentina, increased substantially after 1994 and its share in exports peaked in 1998 on 17.8 percent compared to 13.6 percent in 1994. After the Brazilian devaluation of 1999 and even more after the Argentinean abandonment of its currency-board foreign exchange regime, Mercosur's share in Brazilian exports fell to 5.5 percent in 2002. It increased again in the Lula government to reach 9.1 percent in 2004. The significant expansion of Brazilian exports after 2002 was accompanied by the rising importance of nontraditional exports markets like China, whose market share trebled since 2000 to reach more than 6 percent. The European Union and the United States accounted for similar shares of the Brazilian export market, hovering around a quarter of the total. But although almost 80 percent of Brazilian exports to the United States were manufactures, this share fell to only one-third for the European Union and to 25 percent for Asia. Almost 90 percent of Brazilian regional exports – both to Mercosur and to the rest of Latin America – are manufactures.

Several regional trade negotiations were started in the mid-1990s. In December 1994 a hemispheric summit agreed to launch negotiations seeking to establish a Free Trade Area in the Americas by 2005. Negotiations were marked by important differences between Brazil and the United States and were still deadlocked at the end of 2004. Negotiations between Mercosur and the European Union were also deadlocked. In the multilateral field, Brazil imposed in 1996 a quota system on imports of automobiles and tried to obtain a waiver under GATT 1994, which was not accepted by the World Trade Organization (WTO). But by far the most important dispute settlement episodes in which the country was involved was the exchange of complaints with Canada on subsidies to exports of aircraft, between 1996 and 2003, when the decisions in favour and against Brazil were roughly equivalent. Brazil obtained important victories in panels initiated in 2002 concerning subsidies to cotton growers by the United States and sugar exports by the European Union. The launching of a new round of

multilateral trade negotiations faced a major setback in Seattle in 1999, but in 2001 a new round was launched at Doha. Since the Cancún conference of 2003, already in the Lula government, Brazil has played a prominent role in the WTO negotiations as part of a G-20 group of developing economies, together with China, India and South Africa, that contributed to counter efforts by developed countries to delay agricultural concessions and to dominate the agenda including mostly issues in which they were *demandeurs*.

POSTSCRIPT: THE FIRST TWO YEARS OF THE LULA
ADMINISTRATION, 2003–2004

The first months of 2003 would witness how far the newly elected government would go in its effort to abide by the pledge of moderation in economic policy. The choice of the economic team was the first concrete indication that the government was really inclined to follow policies that the Workers' Party (PT) would be ready to brand as unacceptably conservative only months before. The destabilisation process that had been triggered by the electoral uncertainty in 2002 had brought about a sour inheritance for the newly elected government. The fast depreciation of the currency had entailed both a serious inflationary shock and a sharp and worrisome increase in the dollar-linked part of public debt. Financial markets were unsurprisingly uneasy and disbelieving, far from convinced of Lula's change of course. The situation called for very orthodox economic measures. To the astonishment of many, the new government responded accordingly.

The benchmark interest rate, which had been raised from 18 percent to 25 percent during the last two months of the Cardoso government, was lifted still further to 26.5 percent in the first two months of the Lula government. A tighter fiscal policy target was also announced. Those measures proved to be highly effective in overcoming the reluctance of financial markets to accept the idea that the government was really committed to the adoption of a consistent macroeconomic policy. A fast confidence rebuilding process was triggered, much helped by a rapid improvement in the trade balance that was being brought about by the joint effect of the four-year long sizable depreciation of the *real* and the strong demand for Brazilian exports in world markets. Lower uncertainty and much healthier external accounts led to a fast appreciation of the currency. The exchange rate, that had closed 2002 at more than R\$3.5/US\$, was already below

R\$3/US\$ by late May. Over the same period, the risk premium of Brazilian bonds over U.S. Treasury bonds plummeted from fourteen to eight percentage points.

Despite the initial success of the economic policy, in mid-2003 there were still widespread doubts on how long the government would continue to show the required persistence in sustaining measures that were known to be strongly opposed by hard-core members of the Workers' Party (PT). By that time, however, the government displayed the courage of its new convictions, by managing to approve an important and politically challenging social security reform in Congress. The waning of economic uncertainty and the favorable evolution of inflation allowed the Central Bank to start a long and steady loosening of monetary policy that would help to soften the resistance to the government's macro-economic policy. As the benchmark interest rate was brought down from 26.5 percent in June 2003 to 16 percent in May 2004, there was a fast increase in the level of activity. After showing a growth rate of only 0.5 percent in 2003, the economy would grow almost 5 percent in 2004.

In contrast to what had happened so often in the past, economic recovery was accompanied by a very strong improvement in the balance of payments, in the wake of very favorable world economic conditions. As the trade surplus jumped from US\$13.1 billion in 2002 to US\$33.7 billion in 2004, the current account deficit of 1.7 percent of GDP was turned into a surplus of almost 2 percent of GDP. The long-awaited structural adjustment of the Brazilian economy, that had been gathering strength during Cardoso's second presidential term, had finally emerged with full force, opening up much more promising possibilities for the steering of the economic policy.

For a newly converted government that had to face much internal resistance to the idea of adopting unpopular orthodox policies, being able to rapidly reap the fruits of such policies was certainly a great help. Growth resumption with strong external accounts already in the second year of Lula's presidential term reinforced the position of those that had defended that the Workers' Party (PT) should take a more moderate tack, and strengthened the political support of the economic team.

For the country, the success of the Lula administration's newly adopted economic policy meant a very promising change. The broadening of the common ground of economic ideas shared by the main political parties, that looked as no more than a mere possibility in late 2002, suddenly seemed more concrete and less reversible. A great problem Brazil had been facing for many years was the ever present spectre of a change of government that

could suddenly turn economic policy upside down. Fear of such reversion was for a long time a very important source of uncertainty and instability, with dire consequences, as the events of 2002 had so dramatically shown. As the reasons for such fears were finally disappearing, and a major risk factor was being left behind, much wider horizons for long-run economic decision making were being opened.

BRAZILIAN SOCIETY: CONTINUITY AND CHANGE, 1930–2000

Nelson do Valle Silva

INTRODUCTION

In the seventy years between 1930 and 2000 Brazil's population grew approximately five times. There are no precise data on Brazil's population in 1930. The so-called Revolution of 1930 made it impossible to carry out the planned census.¹ However, since the population was 30.6 million in 1920 and 41.2 million in 1940, it can be reasonably estimated to have been around 34 million. The census of 2000 shows a population of almost 170 million. See Table 8.1.

The annual rate of growth of the Brazilian population was an estimated 2.9 percent in the first twenty years of the twentieth century (with a significant contribution from immigration, mainly Italians, Spanish and, after 1908, Japanese in São Paulo, Portuguese in Rio de Janeiro, Germans and other central and eastern Europeans in the South)². It fell to about

¹ Brazilian censuses are, in principle, conducted every ten years. They have had, however, in practice a somewhat chequered history. In the 1900 census, data for the city of Rio de Janeiro, the Federal District, were judged to be inadequate and annulled. A new census of the state of Rio de Janeiro was carried out in 1906. The censuses of 1910 and 1930 were cancelled for political reasons. The 1920 census contained serious accounting errors, apparently overestimating the population by about 10 percent. An administrative scandal forced the cancellation of the 1960 census data processing, which was only carried out, and then unreliably, almost twenty years later. The census planned for 1990 was postponed until the following year for both political and administrative reasons. Only the censuses of 1940, 1950, 1970, and 2000 are considered reliable.

² From the 1880s, and especially after the abolition of slavery in 1888, to the 1930s, it is estimated that a total of five million people emigrated to Brazil (32 percent Italian, 31 percent Portuguese, 14 percent Spanish). Immigration, however, did not have the same importance for population size in Brazil as, for example, in Argentina and the United States. Giorgio Mortara, the major demographer working in Brazil during the twentieth century, studied the contribution of immigration to population growth in various countries between 1840 and 1940 and concluded that immigration contributed directly (immigrants themselves) and indirectly (their descendants) to 19 percent of population growth in Brazil compared to 58 percent in Argentina, and 44 percent in the United States. See Giorgio

Table 8.1. *Population Growth, 1900–2000*

Year	Population (in thousands)	Average Annual Growth Rate (%)
1900	17,438	2.9
1920	30,636	1.5
1940	41,165	2.4
1950	51,942	3.0
1960	70,070	2.8
1970	93,139	2.4
1980	119,003	1.9
1991	146,825	1.5
2000	169,591	

Source: *Sinopse preliminar do censo demográfico*, 7 (2000), pp. 1–24.

1.5 percent during the next twenty years, and started to rise again (this time as a result of natural growth) in the 1940s, reaching the impressive rate of almost 3 percent per annum in the 1950s and 1960s. However, after the mid-1960s the rate of growth began to decrease again as a result of a sharp fall in the birthrate. At the end of the century it was once again little more than 1.5 percent per annum. See Tables 8.1 and 8.2.

The rapid economic growth and modernisation that Brazil experienced after 1930, especially between 1940 and 1980, followed a familiar pattern: on the one hand, a marked reduction in the numbers employed in agriculture; on the other hand, growth in employment in industry, the dynamic driving force in the process, and more particularly in the service sector. Thus, while about two-thirds of the economically active population were involved in agriculture and rural activities in 1940, by the end of the century it had fallen to about a quarter. Employment in the service sector, traditionally predominant in the profile of the Brazilian urban labour market, had grown from about 17 percent of the economically active to more than 50 percent in the same period, while the number employed in industry had increased from approximately 15 to 20 percent. However, in the last ten years of the century a process of relative deindustrialisation had taken place. At the height of the industrialisation process the Brazilian industrial working class had increased about five times, from 2.8 million in 1950 to 14.3 million in 1980 (when it was about a quarter of the working population). Brazil

Mortara, *Pesquisas sobre populações americanas* (Rio de Janeiro, 1947). See also Judicael Clevelário Júnior, 'A participação da imigração na formação da população brasileira', *Revista Brasileira de Estudos de População*, 14 (1997).

Table 8.2. *Components of Population Growth (per thousand) 1900–2000*

Period	Births	Deaths	Natural Growth	Net Migration	Total Growth (%)
1900–1940	45.0	26.0	19.0	2.0	2.1
1941–1950	44.5	20.9	23.6	0.4	2.4
1951–1960	43.3	14.2	29.1	0.9	3.0
1961–1970	40.0	12.0	28.0	0.0	2.8
1971–1980	34.0	10.0	24.0	−0.4	2.4
1981–1990	27.5	8.1	19.4	−0.6	1.9
1991–2000	21.9	6.9	15.0	−0.5	1.5

Sources: *Anuário Estatístico Brasileiro* (1998) and *Censo Demográfico* (2000)

never had, and probably never will have, a labour force which is mainly industrial.

The process of industrial development involved a significant degree of geographic and social mobility, in which movement from the countryside to the town was the main element, making a rural background the basic characteristic of most Brazilians right up to the end of the century. A study on social mobility in Brazil, using data from 1973, found that the fathers of almost two-thirds of economically active men were rural workers. Repeating the same analysis almost a quarter of a century later, with data from 1996, it found that most Brazilians were still children of rural workers.³ At the level of 'liberal professionals and high-level administrators', only 15 percent came from families headed by fathers from the same background. About 20 percent had fathers who were 'non-manual, low-level routine production workers' and almost 12 percent were children of 'rural workers'. In another privileged group, 'urban business employers', an even higher proportion, almost 30 percent, were children of rural workers. Taking these two upper strata together, only 13 percent came from families already belonging to what might be called the 'elite'; the other 87 percent were 'recent arrivals', 38 percent of them having fathers whose occupations were included in the broad category of manual workers.

Another study, based on the 1988 Pesquisa Nacional por Amostra de Domicílios (National Research by Household Sample) – PNAD, examined the 1 percent of individuals with the highest incomes in Brazil, that is to say, the top of the top of the earnings' scale. Following the usual

³ Carlos Antonio Costa Ribeiro, 'Em movimento inercial: Imobilidade das fraturas de classe no Brasil', *Insight Inteligência*, 21 (April–June 2003), pp. 142–59.

custom of analyses of income inequalities in Brazil, this group may be called, for purposes of simplification, the 'rich', but we should remember that this is an imprecise term because the data refer to monthly earnings and not to accumulated wealth. This study showed that 21 percent of the 'rich' had not studied at university and 9 percent of them had *at best* only a basic education.⁴ In addition, 21 percent of them had begun work before they were 13 years old, 50 percent before they were 16 years old. Along with this early entry into the world of work, the first job of 51 percent of 'rich' Brazilians was in manual work, mostly as 'service workers' (32 percent) and 'rural workers' (about 10 percent). In terms of family social origin, more than 41 percent of the 'rich' were first-generation rich, children of 'manual workers'; 52 percent of their fathers and 61 percent of their mothers had only some basic education. Thus, Brazilian society was characterised by a high level of upward social mobility. Finally, it should be pointed out that 87 percent of the 'rich' were white and 91 percent were male.⁵

Between 1930 and 2000 Brazil experienced a rapid transition from a predominantly rural to an overwhelmingly urban society. Urban population was less than 30 percent of the total population in 1930. By the end of the century it had reached around 80 percent (almost 90 percent in the Southeast). According to the 2000 census, Brazil had three large metropolitan regions which alone accounted for almost 20 percent of the country's population: São Paulo had about 17.8 million inhabitants (10.4 million in the state capital), Rio de Janeiro had about 10.9 million (5.9 million in the capital), and Belo Horizonte had about 4.8 million (2.3 million in the capital).

There was an equally significant transformation from a predominantly illiterate to a largely literate population. In 1930 more than 60 percent of the adult population was classified as illiterate, less than 15 percent in 2000. This represents considerable progress, although the figure for 2000 is still high and reveals the low priority historically given to basic education in Brazil. Another indicator pointing in the same direction, combining undeniable advances with the wrong priorities, is the expansion of enrolment at different levels of the education system. Thus, while from 1930–2000, enrolment at the primary level increased by a factor of seventeen

⁴ Educação básica/fundamental (primary education) in Brazil represents the first eight years of formal education.

⁵ Paula Medeiros Albuquerque, *Um estudo da população de altos rendimentos no Brasil nos anos recentes* (Rio de Janeiro, UFRJ/FEA, texto discente no. 21, 1994).

Table 8.3. *Rates of Illiteracy and Enrolment by Level of Education, 1930–2000*

Year	Rate of Illiteracy (% adult population)	Enrolment (primary) (thousands)	Enrolment (secondary) (thousands)	Enrolment (higher) (thousands)
1930	60.5	2,085.0	73.0	14.5*
1935	58.3*	2,414.0	94.0	17.0*
1940	56.1	3,068.0	176.0	20.0
1945	53.3*	3,239.0	256.0	32.0*
1950	50.6	4,352.0	437.0	51.0
1955	44.8*	5,611.0	604.0	70.0
1960	39.7	7,477.0	868.0	96.0
1965	35.5*	11,590.0	509.0	203.3
1970	31.8	12,812.0	1,086.1	430.5
1975	28.2	19,549.2	1,935.9	1,089.8
1980	24.5	22,598.3	2,819.2	1,409.2
1985	21.6	24,769.7	3,016.2	1,460.5*
1990	19.1	28,943.6	3,498.8	1,529.5*
1995	16.8	32,668.7	5,087.7*	1,716.3
2000	14.8	35,717.9	8,192.9	2,565.3*

* Interpolated by the author.

Source: Oxford Latin American Economic History Database: www.oxlad.geh.ox.ac.uk

(achieving almost universal access to school by the end of the century, but far from ensuring a complete primary education for young people), enrolment at the secondary level increased 112 times and at the higher level no less than 177 times in the same period. See Table 8.3.

One of the basic axes of the social change in Brazil during the twentieth century is the changing role of women and, in particular, their involvement in the labour market: the proportion of women in the economically active population rose from less than 10 percent during the 1920s to almost 40 percent by the end of the century. This participation, combined with the improved education of women, began to break down once and for all the barriers of occupational segregation. In the last ten years of the century, not only did women comprise the majority of those enrolled in higher education, but they had entered definitively into almost all areas of employment. The tendency to feminisation may be seen even in traditional professions, such as medicine, and law where, among new graduates, there were more women than men.

The combination of rapid economic growth and accelerated urbanisation, together with a general (although small) rise in educational levels, especially among women, and the consequently greater involvement of

women in the labour force, resulted in a marked reduction in the birth rate at all levels of society, an increase in per capita family income, and some reduction in the level of poverty, especially during the period 1950–1980, and a considerable improvement in the quality of life of most Brazilians. The improvement in family living conditions can be seen, for example, in the consumption of durable goods: families with refrigerators increased from less than 12 percent to approximately 75 percent between 1960 and 1995; those with televisions from less than 5 percent to more than 80 percent in the same period.

In addition, there were significant advances in the health of the general population. For example, the infant mortality rate, which was about 158 per thousand live births during the 1930s, fell to about 35 per thousand in the second half of the 1990s. During this same period, the expectation of life at birth (of which infant mortality is a decisive component) rose from forty-two to approximately sixty-eight years. The improvement in health indicators also points to a change in the profile of deaths among the population, producing a process known as ‘epidemiological transition’, in other words, a change in the main causes of death, showing a proportional drop in deaths from infectious-contagious and parasite-borne diseases and an increase in the relative occurrence of internal illnesses, those involving the circulatory, respiratory and digestive systems, and tumours. Thus, among the total number of deaths in Brazilian state capitals, those resulting from infectious-contagious and parasite-borne diseases fell from 46 percent in 1932 to only 5 percent in the 1990s, while deaths from circulatory system illnesses increased from 12 percent to 34 percent and from tumours from 4 percent to 13 percent of deaths in the same period.⁶

Improvements in social indicators in Brazil, however, not only reflect improvements in family purchasing power and the educational level of the population. The Brazilian state, which grew dramatically during this process of modernisation and change, also made a significant positive impact by increasing the direct supply of its services. If we look again at the area of public health, improvements in the services of urban infrastructure not only had a great direct impact, especially on the level of infant mortality, but greater access to the health service network also affected the whole spectrum of mortality, including that of adults. While as late as 1960 only 21 percent of households had access to piped drinking water and 14 percent

⁶ See Nelson do Valle Silva and Maria Ligia de O. Barbosa, ‘*População e estatísticas vitais*’, IBGE, *Estatísticas do século XX* (Rio de Janeiro, 2003), pp. 29–58.

Table 8.4. *Average Gini Coefficients by Region and Decade*

Region	Decade			
	60	70	80	90
Eastern Europe	0.25	0.25	0.25	0.29
Southern Asia	0.36	0.34	0.35	0.32
OECD and High-Income	0.35	0.35	0.33	0.34
East Asia and the Pacific	0.37	0.40	0.39	0.38
Middle East and North Africa	0.41	0.42	0.41	0.38
Sub-Saharan Africa	0.50	0.48	0.44	0.47
Latin America	0.53	0.49	0.50	0.49
Brazil	0.54	0.60	0.60	0.60

Sources: S. Morley, *La distribución del ingreso en America Latina y el Caribe* (Santiago: Fondo de Cultura Económica, 2000); R. P. Barros, R. Henriques and R. Mendonça, 'A estabilidade inaceitável: desigualdade e pobreza no Brasil', in R. Henriques (ed.), *Desigualdade e pobreza no Brasil* (Rio de Janeiro: IPEA, 2000). Data for Brazil for the 1960s were calculated by the author.

were connected to sewerage systems, by the mid-1990s these figures were 76 percent and 40 percent, respectively. While there was only one health establishment for every 26,000 inhabitants in 1940, there was one for every 4,000 inhabitants in 1992. At the same time, the number of doctors per thousand inhabitants had risen from about 0.4 in 1950 to 2.1 in 1992.

Unfortunately, not all social indicators were positive during this intense process of social change. It is well-known that Brazilian society is one of the most unequal in the world. If we look at the Gini Index⁷, the most frequently used indicator of income inequality, for the various regions of the world during the last forty years of the twentieth century, we find that Latin America is the most unequal and has been so at least since the 1960s. When we include data for Brazil in this comparison it becomes evident that its figures are even higher than those of Latin America as a whole during every period. In other words, Brazil is a country in which inequality of income is unusually high even in a continent where this inequality is already abnormally high. See Table 8.4. And Brazil has been in this inglorious position for most of the second half of the twentieth century. Moreover, inequality in Brazil has actually increased significantly in relation to levels found in the first half of the century.

⁷ The Gini coefficient measures percentage difference between actual income and a perfectly equal distribution in which each individual receives exactly the same income. This index varies between zero and one, where zero represents the hypothetical situation of perfect equality, and a situation in which only one individual alone receives the total of all incomes.

Many recent studies have documented the extraordinary stability of high levels of inequality and poverty in Brazil during the last twenty years of the twentieth century. For example, household surveys have repeatedly shown that the richest 10 percent of families have enjoyed income levels twenty-five times higher than those of the poorest 40 percent. In addition, the percentage of families living below the poverty line (a line which is already quite modest by international standards) remained at a level varying between 35 and 40 percent of the total population during this period.

Although it started from an already very high level inherited from its slave-based history, which had produced a society profoundly fractured between a wealthy elite and the huge mass of the poor and wretched, the exceptional durability of Brazilian social inequalities throughout almost the entire twentieth century must be understood to be, to a large extent, one of the results of the very speed and nature of the profound structural changes that had transformed a traditional agricultural society, with semifeudal aspects, into a modern, urban capitalist society with a strong industrial base. As we shall try to show in this chapter, the historical behaviour of levels of inequality and poverty derives precisely from the choices and paths taken during this rapid process of development, especially in some areas that make up its most important determining factors: the country's agrarian structure, the education offered to its population (especially basic education, both in terms of quantity and quality), and the rents and 'quasi-rents' coming from the corporatist and excluding structure of its labour market as well as from its high level of industrial concentration.

Something which is even more symptomatic of the darker side of social evolution in Brazil, part of a chain of causes still not completely understood, is the combination of rapid growth of the urban population, especially the relatively high numbers of young adults, continued high levels of poverty and, from 1980, relative economic stagnation and fiscal crisis, making the Brazilian state incapable of responding adequately to increased sales of illegal drugs and illegal arms. All this resulted in a serious unravelling of the fabric of society in the last two decades of the century, whose most obvious manifestation is the extraordinary increase in violence, especially evident in the big cities. In fact, murder and other causes of death by violence are today the main cause of death among men aged between fifteen and forty-four, while in Brazil as a whole, murder rates doubled between 1980 and 2000. For this reason, Brazil occupies another unenviable position: it has one of the highest murder rates in the world. The question of violence

is probably the most serious social problem Brazil faces on the threshold of the twenty-first century.

BRAZILIAN SOCIETY, c. 1920–1945

Brazilian society in the 1920s, geographically based on what has been called the Brazilian 'archipelago', that is to say, economic 'islands' mainly along the coast, separated by large empty spaces only loosely connected by a rudimentary system of transport, was widely and fundamentally anchored to large-scale agricultural production and mining aimed at the external market, as it had been since the colonial period. In terms of social stratification, this dependence on the primary export sector implied not only a high concentration of land ownership but also the existence of an almost bipolar rural society: on one hand, a small group of large-scale agricultural landowners, the nucleus of the national elite; on the other hand, a vast mass of rural workers composed of those involved in independent small-scale family production, as well as wage-earning workers and those engaged in traditional forms of productive relations such as sharecropping. It is estimated that in 1920, 70–75 percent of the economically active male population consisted of rural workers. Less than a quarter of Brazil's population of thirty million could be classified as urban, even on the most generous definition of urban. And of Brazil's cities, only the Rio de Janeiro (the Federal District) had more than one million inhabitants; São Paulo, with a population of half a million was the second-largest city.

In these urban areas there was a relatively large bureaucratic stratum responsible for the functioning of the state machine that was an important route for upward social mobility for those coming from less privileged classes. This was true not only in the civil sphere but also in the military, especially in the case of the army. It will be found, however, that access to official posts depended essentially on the patronage of powerful people. There was also a group consisting of the classic liberal professions which were already quite well-established by reason of the regulated operation of their respective higher education courses and by the establishment of institutions to represent them and defend their interests; many had extensive links – through family or marriage – with the landholding elite. It was often the case that a degree in one of these professions was simply a cultural ornament to legitimise social superiority and a passport for the children of the rural elite to enter politics, rather than a certificate to qualify them

to perform a real function in an economically rewarded activity. These strata of bureaucrats and professionals made up a 'middle-class' linked by networks of friendship or family, subordinated to and dependent on (in the manner of the 'poor relation') the agrarian elite.

Finally, there was also a small group of employers, both in commerce and in the emerging industrial sector, who helped make up the summit of the urban social hierarchy and combined ownership of the means of production with its effective administration. A large number of these businessmen consisted of successful immigrants who had come to dominate important sectors of the urban economy: commerce, for example, was mainly in the hands of the Portuguese, especially in Rio de Janeiro; and the São Paulo industrial sector was strongly identified with Italian immigrants. Data for 1920, however, reveal that these middle-level urban strata comprised, at most, little more than 10 percent of all families.

At the base of the pyramid of urban social stratification was a large mass of manual workers who lacked any kind of social protection and whose employment situation was basically informal and extremely unstable. At this level we find domestic service and other personal services carried out in the home. (Domestic service at that time was not the almost exclusive reserve of female employees which it would later become; nevertheless, if we take the female labour force alone, it is estimated that about 20 percent of female workers were employed in domestic service.) We also find here a wide variety of self-employed manual work in the service area, the so-called *biscateiros* (casual workers), street-hawkers and tradesmen. This stratum, which may be seen as a broad traditional and informal sector rooted in the country's slave-owning historical culture, was made up largely of ex-slaves and their descendants, a sector to which they were basically restricted during the process of creating a free labour market in the period following the formal abolition of slavery.

Above this informal urban stratum there was already beginning to appear a still relatively small sector of industrial workers employed in 'traditional' industries, or 'first industries', directed at satisfying the basic needs of the domestic consumer market. Examples of these are the construction industry and the food, drink, clothing and furniture industries. They were concentrated in the Southeast region, and within the Southeast it was already evident that the industrial axis was steadily shifting from the Federal District, that is to say, the city of Rio de Janeiro to the state of São Paulo. Data from the 1920 census suggest that industry absorbed about 9 percent of male workers, of whom about one-third worked in the construction

industry. Taking the labour force as a whole, we may estimate that a total of a little more than 12 percent were employed in industry, since women had a significant presence in some specific industries (notably in the clothing and related industries, which employed about 22 percent of female workers at that time). It is important to remember, however, that the great majority of these industrial workers were probably also occupied in informal areas of labour, typically self-employed. Also, more or less at this same level of social status, in addition to this sector of industrial workers there was a larger group of workers in service industries, especially in established trade and collective services. Levels of informality among these workers were probably also very high. And here, more particularly among workers in the formal sector, were a significant number of immigrants. Foreign workers were in fact often preferred to Brazilians. They enjoyed a privileged position in terms of access to higher-level, better paid jobs that provided better chances of upward social mobility, thus introducing a tendency to racial/ethnic duality in social stratification and therefore an element of conflict in the labour market, which led, as in many other countries, to nationalist legislation restricting immigration during the 1930s.

It goes without saying that the working and living conditions of rural workers at that time were extremely precarious. But the working and living conditions of urban workers (including even industrial workers) were not much better.⁸ The working day, which was often more than twelve hours long, was spent in unhealthy environments with high exposure to the risk of accidents. Indeed, the pattern of work that still prevailed was that of a ferocious exploitation of the labour force and, at least until the decade of the First World War, of a complete lack of laws to guarantee anything even approaching what today are felt to be basic workers' rights. This is without mentioning any institutional protection against arbitrary behaviour on the part of company owners and managers who still tended to act like old-style slavedrivers. Moreover, in terms of living conditions, working class districts lacked even the most basic urban infrastructure services, such as access to domestic piped water and sewage. With their inhabitants frequently crammed together in multi-family units, the notorious slums and *cabeças-de-porco* [literally 'pig's-heads'; tenements], the high density in these buildings exposed people to varied and very unhealthy environments that resulted in high death rates, especially from infectious

⁸ For a more detailed discussion of industrialisation and the development of the Brazilian working class, see Tânia Regina de Luca, *Indústria e Trabalho na História do Brasil* (São Paulo, 2001).

and contagious diseases, such as smallpox, tuberculosis, typhoid fever and dysentery.

Wages were kept low by a systematic over-supply of labour. The end of slavery, which freed a large number of Brazilian rural workers who were no longer disposed to submit to the working conditions that prevailed on plantations, resulted in a significant increase in numbers of workers in the main urban areas. Furthermore, many immigrants who had been recruited to take the place of Brazilian workers, slave and free, on the coffee plantations, became disillusioned by the actual working conditions and, with no hope of becoming small landowners themselves, turned in large numbers to these same urban areas in search of better jobs and improved life chances. This was particularly the case in São Paulo but also to a lesser extent in Rio de Janeiro. With wages too low for workers to maintain their families, they called on their wives and children to take jobs, which led in turn to increasing the oversupply of labour and to a new cycle of low wages. The presence of women and children in the labour market made itself felt, especially in the textile industry. According to the 1920 census about one-half of those working in the textile sector were women and young people under eighteen years of age.

Following the 'Revolution' of 1930, the provisional government of Getúlio Vargas introduced legislation for the protection of the Brazilian worker. Under decree no. 20,291 (August 1931), the first legislation concerning ethnic quotas applied to the Brazilian labour market, it became compulsory for two-thirds of the employees in any company to be Brazilian nationals. And in 1934 a system of annual quotas for the entry of immigrants was put in place: for each country two percent of the number of its nationals entering Brazil between 1884 and 1934. In addition, total immigration into Brazil was limited to 77,000 individuals per year. The system, although extremely restrictive, was notable for its bias in favour of European immigration, to the detriment of the more recent immigration from Asia. The result of this legislation was a substantial reduction in the number of foreigners entering Brazil: from 835,000 in the 1920s to 285,000 in the 1930s, and only 130,000 by the 1940s.

In part as a consequence of the new restrictions on immigration the rate of population growth in Brazil declined during the 1930s, as we have seen. From the 1940s, however, the natural growth in the Brazilian population, while relatively modest compared with the following decades, became increasingly significant. Brazil's population, which grew from thirty-four to forty-one million between 1930 and 1940, reached fifty-two million in

1950. See Tables 8.1 and 8.2. While birthrates remained basically stable at about forty-five births per thousand inhabitants, mortality rates began their steady fall from the level of about twenty-six births per thousand during the previous period. Most significantly, the infant mortality rate dropped from about 158 deaths per thousand live births in the 1930s to less than 145 deaths in the 1940s. Similarly, and mainly, as a result of this, life expectancy at birth increased from 41.2 to 43.6 years. These figures, however, conceal substantial interregional differences. In the 1930s life expectancy at birth was fifty-one years in the South and Southeast but only thirty-five in the Northeast. Ten years later average life expectancy in the South and Southeast, especially São Paulo, had increased by almost seven years while remaining the same in the Northeast. Thus, the difference in average life expectancy between the two regions had increased from sixteen to twenty-two years.

Economic growth in the 1930s and 1940s,⁹ the continued concentration of industry in the Southeast, especially São Paulo (which increased its share of industry at the expense of Rio de Janeiro), the shift of the agricultural frontier to the west of the state of São Paulo, the northeast of Paraná and southern Mato Grosso and an expansion in internal communication networks between the regions of Brazil, led to an increase in internal migration, particularly from the North and Northeast to the large urban centres in the Southeast, especially Rio de Janeiro and São Paulo, and the Centre-West. These trends would have two important consequences for the establishment of a pattern of population re-distribution which would continue for some decades. First, the North and Northeast regions, despite their typically higher levels of reproduction, lost their relative importance in terms of the total population in favour of the Southeast region and the agricultural frontier. Compared to 1900, when they contained almost 40 percent of the country's population, the Northern regions of Brazil would see this share reduced to less than 35 percent in 1950. On the other hand, regions to the South would see their share increase from just over 55 to almost 60 percent in the same period. In addition, urban areas expanded mainly by absorbing migrations from the countryside. Even if we define urban areas as municipalities with more than 20,000 inhabitants – a stricter criterion than the official definition – the proportion of inhabitants in urban areas in Brazil, which had grown from 10 percent to 16 percent between 1900 and 1940, increased more than 5 percent during

⁹ On the Brazilian economy in the 1930s and 1940s, see Chapter 5 in this volume.

the latter decade, reaching a total of 21 percent of the Brazilian population in 1950.

The industrialisation process led to a dramatic increase in the size of the industrial working class within the urban workforce. It grew at a more or less constant rate of around 5 percent per annum, far higher than the rate of population growth, throughout the period 1930–1950. However, the conditions of life enjoyed by the industrial working class and urban workers in general, even in the large metropolises like Rio de Janeiro and São Paulo, still left much to be desired. During the 1930s and 1940s various official social service agencies carried out repeated surveys of the living conditions of the urban working classes, concluding invariably that the faster a city grew, the faster the workers' standard of living apparently deteriorated, despite the embryonic social services offered by the government, trade unions and even employers.

Research on the origins of the working class in São Paulo shows that only one in ten workers had access to free medical care and that, although the city of São Paulo was experiencing a building boom, less than four percent of all new homes were for workers' families.¹⁰ For many, the solution was to live on the outskirts of the city where easier access to land not only allowed access to cheaper living space but also provided an opportunity to supplement wages by growing fruit and vegetables or breeding animals. A study of 221 working class families in São Paulo by the American sociologist Horace B. Davis in 1934,¹¹ showed that, in order to escape from high rents in industrial areas, about one-quarter of these workers were living on the outskirts of the city, depending on the unreliable rail system to get to their place of work. But the great majority of working class families in these large metropolises, because of high transport costs and the need to live close to where they worked, were forced to gather in slums in central areas.

In the case of Rio de Janeiro, the unusual geography of the city, between the sea and the mountains, forced the poor population to live in slums in run-down central areas or occupy the steep sides of the mountains, close to the 'noble' areas, thus creating an urban fabric with little spatial segregation between social classes. These mountain-side groups of shacks, built of flimsy materials, without access to any kind of public services

¹⁰ Joel Wolfe, *Working women, working men. São Paulo and the rise of Brazil's industrial working class, 1900–1955* (Durham, NC, 1993), p. 91.

¹¹ Quoted in Wolfe, *op. cit.*, p. 91.

and with no legal title to the space occupied, were called *favelas*,¹² a term which later came to be used all over the country and which today describes almost any poor urban area, either on hillsides or on level ground, with high population density, poor public services, inadequate buildings, and, most important, no legal title to property.

The *favelas* of Rio, which dated from the beginning of the Republic in 1889 and which had spread as a result of the urban improvements instigated by Mayor Pereira Passos at the start of the twentieth century, grew even more rapidly with the building of the Avenida Presidente Vargas, two kilometres in length and seventy-two metres wide, between 1941 and 1944. This and other grandiose urban improvements of authoritarian inspiration carried out at the same time involved the destruction of much of the centre of the city. More than five hundred buildings, including several of great historic importance, were demolished, and large numbers of the poor were driven to find alternative accommodation on the hillsides.

It was not only the industrial working class, and the urban workforce as a whole, that grew during the period 1930–1945. There was also an expansion of the middle and lower-middle class accompanying the growth and increasingly complex nature of the state. The public sector witnessed a significant expansion as not only new ministries, but also many councils, committees, commissions, advisory organs, and working groups responsible for organising the new government activities were set up. As these new functions needed logistical and operational support, the increase in public-sector employment also increased at the level of routine bureaucratic operations, strengthening a social stratum that would increasingly become a niche for the entry of women into the labour market as well as an important means of upward social mobility for those who were underprivileged for racial or social reasons. An important administrative measure aimed at reforming the state, bearing in mind the need to rationalise and professionalise its workforce, was the creation in July 1938 of the *Departamento Administrativo do Serviço Público* (DASP) [Public Service Administration Department], under the direct control of the Office of the President, which

¹² It seems that the word *favela* has its origin in the episode known as the Canudos War in the state of Bahia during the government of President Prudente de Moraes (1894–1898). The impressive citadel of Canudos spread over several hillsides, one of them known as ‘Favela Hillside’, called after a plant common in the region. When the soldiers who fought in the Canudos campaign returned to Rio, they went to live in temporary constructions built on the side of a hill next to the Ministry of War. From that time, groups of shacks covering the hillsides came to be known as *favelas*, a reference to the Favela of the Canudos encampment.

would manage the process of modernising the government bureaucracy. The DASP sought to introduce a system of merit in public service selection by means of a system of public examinations administered by professionals with a university education. However, access to public employment was still to a large extent controlled, as it always had been in Brazil, by patronage and *filhotismo* [favouritism, usually resulting from family connections], brought about by means of an inevitable 'letter of introduction', with not much of the DASP's 'scientific administration' becoming reality.

The rate of change in Brazil's class structure during the period 1930–1950 was nevertheless still relatively slow. Based on data from the 1940 and 1950 censuses, the following descriptive framework of general socio-occupational categories immediately after the Second World War was proposed:¹³ unqualified rural and urban workers, lower-ranking military personnel, domestic employees, and similar groups (70 percent); workers and qualified employees in industry, commerce and services, and semiqualfied workers in offices and commerce (18 percent); middle-rank employees in positions of authority and responsibility, urban and rural (6 percent); professionals, business administrators and noncompany owning directors, officers in the armed forces (2 percent); and landowners, bankers, industrialists, merchants, and so forth (4 percent).

Labour Legislation and Social Policies

The intense labour agitation at the end of the First World War produced a series of laws aimed at dealing with some of the main demands of the labour movement: the law of January 1919 introduced insurance for accidents at work and defined the responsibility of employers for the consequences of accidents; a law in 1925 established the right of urban workers to two weeks of paid holiday per year; the 1927 Code of Minors prohibited the employment of children under the age of fourteen, as well as limiting the working day to six hours for those aged under eighteen. Most important was the legislative decree of 24 January 1923, the so-called Eloy Chaves Law, which established a Retirement and Pensions Fund (CAP) [*Caixa de Aposentadoria e Pensões*] for workers in all companies, financed in equal parts by contributions from employees and employers, and administered

¹³ Luis Costa Pinto, 'As classes sociais no Brasil – Padrão tradicional e mudanças recentes', *Revista Brasileira de Ciências Sociais*, III/1 (March 1963), pp. 217–47.

by representatives of the employers. It is generally seen as initiating the social security system in Brazil.

Because these laws created obligations for which employers were totally responsible, and directly affected company profits, many of their requirements in practice were never implemented. It should also be noted that legal social protection was confined to urban workers who were in more or less formal employment. Thus, in a context in which the vast majority of workers were in rural employment and even in the towns those in informal employment constituted the great majority, this fragile protection benefitted only a very small proportion of the labour force, something like 5 percent at most. Restricted access to citizenship and social inequality would remain the basic characteristics of Brazilian society for the rest of the century. However, this early social legislation and, even more important, the public discussion concerning its principles, marked the beginning of the recognition of the legitimacy of workers' rights in Brazil, creating a legal nucleus that would be enlarged and strengthened in the following decades.

Following the Revolution of 1930, and especially during the Estado Novo (1937–1945), within the new context of a reforming state that was *dirigiste*, authoritarian and centralising, the 'social question' was confronted and the rate at which bureaucratic and legal measures were proposed and implemented for dealing with it was considerably accelerated. At the very beginning, in November, 1930, a Ministry of Labour, Industry and Commerce was created (replacing the old National Labour Council of 1923) with responsibility for organising labour legislation and directing and supervising social security. Along with a series of draft projects which were not immediately implemented (in its first year of operation it proposed, among other things, a minimum salary, a shorter working day and the regulation of work by women and minors) the new Ministry, with decree No. 19,770 of March 1931, introduced a profound change in the rules concerning the organisation of both employers and employees, radically changing the nature of class-based associations. The law in place at the time, dating from 1907, was liberal in nature and recognised in workers' unions and employers' bodies the existence of civil groups that functioned autonomously in relation to the state. The new decree reduced these bodies to technical and consultative organs whose essential function was to collaborate with the state. At the same time, influenced by both Catholic and fascist corporativism, pluralism in labour unions was abolished; for each branch of activity in a given municipality the Ministry would recognise

one union and one alone. The rules regulating the internal workings of unions also required the presence of Ministry representatives who were guaranteed the right to take part in meetings and who were charged with examining financial accounts every three months. Unions were obliged to present annual reports, including financial statements, to the Ministry. Noncompliance with these rules entailed the possibility of a wide variety of sanctions, including total disbandment. In structural terms, the labour unions were grouped in federations or confederations representing the same occupation, creating a vertical structure and making difficult contact between workers in different sectors of the economy. And the same vertical structure also reshaped employers' associations so that capital and labour were equally subordinated to the state.

In part to overcome possible resistance to these changes in labour legislation, new social security legislation was also introduced and implemented. Although CAPs continued to be created under the Eloy Chaves Law, especially in the public sector, they tended to be grouped in larger-sized institutions known as *Institutos de Aposentadorias e Pensões* (IAPs) [Retirement and Pensions Institutes] which included all the workers in a specific area of economic activity. In 1933, the Maritime Workers' Institute (IAPM) [*Instituto dos Marítimos*] was set up. It was considered to be the first nationwide Brazilian social security institution. In the following year IAPs were created for merchants (*IAP dos Comerciantes* – IAPC) and bank workers (*IAP dos Bancários* – IAPB); in 1936 for industrial workers (*IAP dos Industriários* – IAPI); and in 1938 for state employees (*IAP dos Servidores do Estado* – IPASE) and transport workers (*IAP dos Empregados em Transportes e Cargas* – IAPETC).

The same period saw the creation of a basic component of the corporatist social model: the work document (*carteira de trabalho*), a compulsory identity document for the worker which he or she needs (it still exists) in order to be employed and to join a union, and thus to have access to the benefits of the new social legislation. And the worker had to be registered in a union recognised by the Ministry of Labour. In other words, in return for the benefits of the law, the worker's membership of the official union movement was required. In 1940, the minimum wage was introduced and, at the same time, the union tax (*imposto sindical*). This new tax obliged all workers, whether or not they in fact belonged to a union, to make an annual contribution equivalent to one day's work to the union of their sector of employment. Thus was created a union system whose

survival was guaranteed regardless of the number of members actually enrolled. The unions increased in number without effective representation or meaningful membership, run by individuals, the so-called *pelegos*,¹⁴ who became, for all practical purposes, de facto staff of the Ministry of Labour, completely subservient to orders of the government of the day. In the following year, 1941, Labour Courts, special courts for solving employment problems, were established, resulting in a tendency to turn conflicts and negotiations between capital and labour into purely legal issues arbitrated by the state. Labour unions, which were already quite docile thanks to the easy and automatic funding offered by the union tax, became even more irrelevant in terms of their capacity for collective bargaining. And strikes were forbidden.

To sum up, it was with the new regime inaugurated by Vargas in 1930, and especially during the Estado Novo dictatorship from 1937, that the main institutional and ideological bases of a new society were established in Brazil. On 1 May 1943 the social and labour legislation of the Vargas period was consolidated in the *Consolidação das Leis do Trabalho* (CLT) [Consolidation of Labour Law –], which continued in existence for the rest of the century. The corporate social structure, inspired by both Catholicism and Italian fascism, with its multiple niches of privilege, access to which depended on belonging to specific occupational categories organised in unions subordinated to the state, put down permanent roots. It continued under the Liberal Republic that replaced the Estado Novo at the end of the Second World War. It was restricted, however, to the formal labour market in the urban areas. Labour relations in the rural areas, along with the structure of land ownership, remained virtually untouched and unaffected. It represented, therefore, the creation of a structure of social exclusion as a result of which, for large numbers of rural workers, taking the road to the cities became the only realistic hope of participating in society.

Educational Reform

One of the most significant changes in Brazilian society in the period after the First World War was the emergence of basic school education as a

¹⁴ Caldas Aulete's *Dicionário Contemporâneo da Língua Portuguesa* defines the term *pelego* as 'a toady, a vile person dominated by another' and in the political sense, 'the name given to the more or less undercover Ministry of Labour agents in trade unions', as well as the literal meaning of the 'unshorn sheepskin' used under the saddle between horse and horseman to soften the impact of riding.

priority among proposals for the nation's 'moral revival'.¹⁵ By increasing the number of educational institutions and expanding basic education, it would be possible to incorporate large numbers of the population into a powerful movement towards moral and intellectual progress that would place Brazil on the road to achieving parity with the great nations of the world. The reform of public education was more than a struggle against illiteracy, above all it was a political strategy to achieve a wide-ranging 'reform of customs' to help Brazilians adjust to new values and conditions of life and create a real cultural revolution. In this the Associação Brasileira de Educação (ABE) [Brazilian Education Association], founded in Rio de Janeiro in 1924, played an important role. It consisted of a group of liberal professionals, with the significant participation of engineers in particular, which became the central body for publicising the movement for educational renovation, aiming to be a focal point for the concerns of those who were trying at that time to make government and the elite aware of problems in the country's education system and of the urgency of taking concrete steps to solve them.

Under the decentralised political system of the First Republic (1899–1930), the Union was responsible for secondary and higher education but delegated the responsibility for primary education to the states where some interesting initiatives in education reform occurred: the Sampaio Doria Reform (1920–1921) in São Paulo which raised illiteracy to the level of a national problem and gave priority to the spread of basic education to sectors of the population that had until then been excluded from it; the Lourenço Filho Reform in Ceará in 1922, which emphasised changing the thinking of teachers; the reform carried out in Bahia by Anísio Teixeira in 1925 that criticised the shortcomings of what he called the 'fetishism of literacy' in the Sampaio Doria Reform; the reform carried out by Francisco Campos in Minas Gerais in 1927, which aimed to re-shape primary schools and train teachers in new methods while also rejecting the idea that simply learning to read and write was a sufficient means to gain access to civilisation and culture; the Carneiro Leão Reform in 1928 in the state of Pernambuco; and finally the reform undertaken by Fernando Azevedo in the Federal District (1927–1930). However, in spite of these pioneering attempts at reform, the great majority of the population

¹⁵ The long history of educational reform in Brazil has been recently re-examined in Glúcia S. Gripp, 'As reformas educacionais no Brasil. A inserção da educação na agenda política brasileira', unpublished doctoral thesis in Sociology, Universidade Federal de Minas Gerais, 2004.

remained illiterate, especially in the countryside, where almost everyone was illiterate.

Nevertheless, the action of pressure groups like the ABE and the reforms carried out at state level contributed decisively to the fact that the new regime established by the Revolution of 1930 would put education high on the national agenda. Unfortunately, as we shall see, the Vargas government, although containing many of the main protagonists of the reforms attempted in the 1920s, presided essentially over the failure of their proposals and a reordering of educational priorities: its main initiatives were limited to secondary education and plans for creating universities.

One of the first and most important measures taken by Vargas's provisional government in November 1930 was the creation of a Ministry of Education. Several of the intellectuals who had been involved in educational campaigns such as those promoted by the ABE, including some like Anísio Teixeira, Lourenço Filho and Fernando Azevedo who had acquired practical experience of reform at state level during the previous ten years, were invited to work with the new government. Brazil's first Minister of Education was a lawyer from Minas Gerais, Francisco Campos, who had led the education reform movement in his state in the late 1920s. The reform process that bears his name, the Campos Reform, was restricted to the higher and secondary education, respecting the republican tradition of delegating responsibility for primary education to the states and municipalities. As far as higher education is concerned, it should be remembered that before the 1930s there were no universities in Brazil. Even the institution known then as the University of Brazil, established in the previous decade, existed only on paper. The Campos Reform introduced rules for the administrative structuring of a university system (creating the office of the *reitor* [president or vice-chancellor] to coordinate the administration of the various faculties) and established new areas of university education in addition to the traditional professional courses in law, medicine and engineering. The federal government also made a definite commitment to secondary education: it introduced the grade system; it extended the policy of equality between schools within the federation; and it created a federal system of regulation, control and pedagogic guidance in secondary schools. The 1931 Campos Reform was the first to be compulsorily applied throughout the country, thus avoiding the fragmentation of reform denounced by intellectuals such as Fernando de Azevedo. It thus fulfilled Azevedo's long-standing demand for the setting up of an education system that would be truly national in scope.

Francisco Campos was dismissed in September 1932. Two years later, in July 1934, Gustavo Capanema, another *mineiro*, became Minister of Education. He remained in the post until 1945. The changes in education introduced by Capanema began with the formulation of a National Plan for Education based on results of a survey of national education. The Plan was never approved by Congress, which was in any case closed following the 1937 coup d'état. Within the context of the Estado Novo dictatorship (1937–45) Capanema tried to put into practice the Plan's main ideas: the project for the 'standard university' (*universidade padrão*), the introduction of technical training, and, in 1942, the reform of secondary education. It was the reform of secondary education that became the lasting legacy of Capanema's administration. Confronting the dilemma concerning the educational content to be offered to young people – humanistic, classical and general education or technical, professional training – the reform reinforced the classical and humanist element in secondary education while at the same time setting up a parallel technical education system which was the origin of the *Serviço Nacional de Aprendizagem Industrial* (SENAI) [National Service for Industrial Apprenticeship] and the *Serviço Nacional de Aprendizagem de Comércio* (SENAC) [National Service for Commercial Apprenticeship]. The priority Capanema gave to reforming secondary school was the expression of contemporary conservative and nationalist values. The educational system had to correspond to the economic and social division of labour and education had to provide for the development of abilities and attitudes in accordance with the roles attributed to the various social classes and categories. Different types of education were needed, one to prepare the elite (secondary school would be the point at which it was recruited and higher education would be the point at which it was polished) and another to train qualified young workers.

In higher education, a centralised system was created, with specific legislation defining the compulsory content of courses and establishing a strict system of supervisory control and regulation of nonfederal or private institutions. The University of Brazil (today the Federal University of Rio de Janeiro – UFRJ) was in effect re-founded by collecting together the various public higher education schools and faculties that already existed in the capital. It, too, was expected to be a model for the rest of the country. It was at this time that the state of São Paulo created its own university. And the University of São Paulo (USP) recruited in Europe, especially in France and Italy, a carefully selected group of young and talented scientists and social scientists.

In spite of the importance claimed for education in the national agenda, the formation of the elite had absolute priority over the education of the masses. Primary education was not reformed under Capanema. And the process of gradually reducing illiteracy proceeded at a very slow rate. During the 1920s, the rate of adult illiteracy, which had remained at 65 percent or higher for several decades, showed a slight drop, reaching the figure of around 60 percent in 1930. From 1930 the fall in illiteracy rates accelerated, but it was still an estimated level of 53 percent in 1945. See Table 8.3. On the other hand, the relatively high priority given to the reform of secondary education by the ministers serving under Vargas (only a little less than that given to higher education) produced a significant improvement in enrolment rates and therefore in the general level of education of many young Brazilians: during this fifteen-year period, while enrollments at the primary level increased by about 55 percent, from 2.1 million pupils in 1930 to 3.2 million in 1945, enrollments at the secondary level increased three-and-a-half times (from 73,000 to 256,000), while higher education also showed a very high rate of growth (the number of students enrolled doubled from 14,500 to 32,000). As a result of this tendency for expansion to be concentrated at the upper levels of education, secondary and higher, educational inequalities took a distinct turn for the worse during this period.

Race Relations and the Construction of a Brazilian Racial Ideology

Like almost all other multiracial societies, modern Brazil is stratified along racial lines with the white population tending to occupy the better positions while the population of African origin typically occupies less privileged situations. Despite certain variations in the proportions of distribution by colour measured by censuses and other official documents, it seems clear that white Brazilians were in the minority for most of the nineteenth century: an estimate for 1890 showed that whites made up about 44 percent of the total population. This picture was dramatically changed by the large-scale immigrations from Europe which, as we have seen above, reached their maximum in the decades around the turn of the century. The 1940 census would show that the proportion of whites had risen to 63.5 percent, while the percentage of the population described as *parda* ('brown') had dropped to almost half of the 41.4 percent recorded fifty years earlier.

For almost the whole of the first half of the twentieth century, Brazil was seen both by foreigners and Brazilians themselves as a unique case

of a racially harmonious society. For example, when President Theodore Roosevelt returned to the United States from a hunting trip to the interior of Brazil in 1913–1914, he declared himself to have been impressed by the marked contrast between the racial situation in his country and that which he had observed in Brazil. It is not surprising that for someone used to the ferocious racial codes of the Southern United States, the relatively tranquil and peaceful climate of race relations found in Brazilian society little more than twenty years after the formal abolition of slavery was both shocking and disturbing. Roosevelt's own words show his admiration for the egalitarian Brazilian solution: 'If I were asked to name one point in which there is a complete difference between the Brazilians and ourselves, I should say it was in the attitude to the black man . . . (In Brazil) any Negro or mulatto who shows himself fit is without question given the place to which his abilities entitle him'.¹⁶ In fact, Roosevelt was merely giving voice to an idea that many Brazilians had come to accept: that their country was the only one in the world enjoying 'racial democracy'. It was an opinion which was shared by social scientists who studied the question. For example, in 1944, an American scholar, Franklin E. Frazier, a specialist in race relations, commented in a well-known essay that

In a certain sense, one may not properly speak of race relations in Brazil. . . . In Brazil, there is lacking, both on the part of the Portuguese and 'white' Brazilians, and, on the part of the 'black' or coloured Brazilians, a consciousness of racial differences. In fact, it is impossible to secure accurate figures on the racial elements in the Brazilian population.¹⁷

Although these observations helped to describe some aspects of race relations in Brazil, they contain a certain irony. Underemployed or simply unemployed, the great majority of the black and mulatto population still occupied the lowest levels of the social hierarchy. Living a miserable existence in subsistence agriculture or prisoners of a chaotic life in the burgeoning *favelas* on the outskirts of towns, forced into a most unequal competition with the foreign immigrant, the lives of blacks and mulattos in their widely varying gradations of colours, were becoming even more wretched through daily submission to subtle (and often not so subtle) forms of prejudice and discrimination.

¹⁶ Quoted in Robert E. Park, 'The careers of the Africans in Brazil', in *Race and Culture* (New York, 1950), p. 200.

¹⁷ Franklin E. Frazier, 'A comparison of negro-white relations in Brazil and in the United States', in *Transactions of the New York Academy of Sciences*, 6 (1944), republished in *On Race Relations* (Chicago, 1968), p. 87.

But there is another aspect of the racial situation in Brazil at this time which should be emphasised: that of the ideal of ‘whitening’. This refers to the doctrine that prevailed in the first half of the twentieth century in Brazil when miscegenation was proposed as the natural solution to what was then called the ‘problem of the negro’. By diluting black blood with massive quantities of white blood imported from Europe, the population would become whiter (and therefore ‘better’). This ideal of ‘whitening’ was an ideological solution to reconcile the contradiction found between the racist doctrines that dominated the scientific world at the end of the nineteenth century and the racial situation in Brazilian society. So it should be emphasised that miscegenation and the encouragement of European immigration are two sides of the quest for a solution to the same ‘problem’: the presence of the black population in Brazilian society. The solution that was found, reducing the numbers of blacks by means of these two processes, was widely successful, as testified by the population statistics shown earlier.

One of the characteristics of Brazilian intellectual life in the 1920s and 1930s was the increased concern with the question of Brazilian national identity. The task of building a nation also meant rethinking its culture, and rescuing traditions, customs and ethnic groups that had been rejected by the elite. What did it mean to be Brazilian? How were we different from other peoples? What was our future as a nation? Attempts to answer these questions would bring about some significant changes in thinking about the racial question in Brazil.

One of the roots of these changes is found in the Modernist movement, which began with the Week of Modern Art in São Paulo in 1922. Although they embraced various widely differing intellectual trends, the Modernists also tried to answer the questions that were beginning to appear as some of the fundamental problems of the time. For example, in *Macunaíma* (1928) Mário de Andrade creates a hero who is born an Indian and successively and symptomatically becomes first black and then white, in an attempt to argue that what was important was the racial and cultural heterogeneity of Brazil, the broad makeup of its national identity.

Another source of rethinking on race was the Nationalist movement, a movement of ideas that began with the poet Olavo Bilac’s Lectures in 1915 and which took more solid shape in the 1920s when they were institutionalised through organisations such as the National Defence League (*Liga de Defesa Nacional*), the São Paulo Nationalist League (*Liga Nacionalista de São Paulo*), the magazine *Brazílea*, and Nationalist Social Action (*Ação Social Nacionalista*). For the intellectuals associated with the conservative

magazine *Brazílea*, as well as attempting to keep the Catholic religion as a moral axis integrating nationalism and Catholicism, it became essential to free the intelligentsia from the domination of Portuguese values and respect the mixed-blood population. This group would extend its xenophobic and above all anti-Portuguese nationalism two years later by founding Propaganda Nativista, a new association which spread throughout the states of Brazil and whose programme of promoting the intellectual and economic emancipation of the country included controlling foreign immigration (favouring only that destined for agricultural labour) and celebrating the intrinsic value of the Brazilian 'race'. So the effort to value what is Brazilian naturally led nationalist ideology to defend the mixing of races and to respect the mixed-race Brazilian in opposition to the idea, then dominant, that the incapacity (and therefore the dismal future) of the Brazilian people was a result of the mixing of races.

In the social sciences, there was also a reassessment of the role of the black Brazilian and of miscegenation in Brazilian society. In contrast to the pessimistic view that saw racial miscegenation as a problem (a view still found in the works of influential intellectuals and scientists such as Nina Rodrigues and Artur Ramos) and an anomaly that compromised the future of the country as a nation integrated with Western civilisation, in later academic studies in which the Brazilian pattern of race relations was celebrated and miscegenation considered to be a positive and central element in the national identity. The most important source of this reorientation in Brazilian thinking on race was the publication of the seminal works of Gilberto Freyre, mainly *Casa Grande e Senzala* (1933) [translated in 1946 as *The Masters and the Slaves: A Study in the Development of Brazilian Civilization*] and *Sobrados e Mocambos* (1936) [translated in 1962 as *The Mansions and the Shanties: The Making of Modern Brazil*], which were reflections of a historical and anthropological nature on the patriarchal Brazilian family in which black slavery and the racial relationships resulting from it play a central role. The focus of these works, and of a whole body of literature associated with them, was essentially directed towards the cultural role of the black person and his or her 'acculturation' into society. Emphasis was placed on the apparent existence of friendly and emotional relationships involving racial contact and, when aspects of social stratification in any specific local situation were analysed, there was a tendency to deny any element of race or colour as a relevant factor in the allocation of social rank, even though these studies do refer in a general way to the undeniable existence of strong racial differences associated with the socioeconomic

situation of individuals. A large part of this literature consists of studies of local communities in non-industrial and 'traditional' areas, especially in the Northeast. An analysis which is typical of this approach is that of Donald Pierson, an American anthropologist in an important study on Bahia first published in 1942:

... what we find, then, in Bahia is a multiracial class society. There is no caste based upon race; there are only classes. These classes are still largely identified with color, it is true, but they are classes nonetheless not castes. The most characteristic tendency of Bahian social order is the gradual but persistent reduction of all distinguishing racial and cultural marks and the fusing, biologically and culturally, of the African and the European into one race and one common culture.¹⁸

Thus, given that lines of colour differentiation run at right angles to lines of class distinction, the 'race question' was essentially one of racial acculturation and assimilation. Colour and class acted independently in deciding social status and were strongly linked, although not in an absolute way. The existence of poor whites as well as rich blacks was recognised in the hope that this association would tend to disappear. In fact, the ideas proposed in this body of work may be reduced to the set of claims that Pierson himself summarised under the title of the 'Salvador Hypotheses', the most relevant of which are:

Miscegenation has always been, and continued to be, extensive... Brancos [whites], mixed-bloods, and pretos [blacks] were represented in all occupations, although, as might be expected – given the fact that the Africans and their descendents began 'on the bottom' so to speak, as propertyless slaves of the dominant group – the descendents of Europeans were concentrated in the upper levels, while the relatively unmixed blacks were concentrated in the low pay, low status employments. The mixed-bloods, however especially the lighter mulattoes (as also an occasional black) had penetrated into the upper strata... There was probably little or no race prejudice in the sense in which that term is used in Europe, South Africa, or the United States. This does not mean that there was nothing which might properly be called prejudice, but that prejudice as existed was primarily class rather than caste prejudice, and it was closely identified with color principally because color was closely identified with class...¹⁹

The 'Salvador Hypotheses' summarise the main axes of what might be called the 'Brazilian racial ideology' and express in classic terms the view that many Brazilians (probably the majority) have of their society even

¹⁸ Donald Pierson, *Negroes in Brazil: A study in race contact at Bahia* (1942: 2nd edition, Carbondale, 1967), p. 337.

¹⁹ Donald Pierson, 'Race relations in Portuguese America', in A. Lind (ed.), *Race relations in world perspective* (Honolulu, 1955), pp. 437–40.

today, especially the insistence that colour prejudice in Brazil is merely an accidental by-product of the class structure.

Publication of the results of the 1940 census provided a better idea of the relationship at the national level between colour and social position at that time. For example, in terms of occupational structure it is found that about 90 percent of members of the group consisting of those in the liberal professions, teachers and private-sector administrators, were white; among civil servants, whites comprised 76 percent; and among those working in trade and finance 79 percent. Blacks accounted for only 2.5, 8 and 5 percent, respectively, in each group. To understand the significance of these figures it should be recalled that the percentage of white males over the age of ten in the population as a whole was 64 percent, black males about 15 percent.

But perhaps colour differences in Brazil at that time are best expressed by inequalities in education. For example, when we come to look at literacy rates among those aged 20 and over, we see that they are less than 30 percent among mixed-race individuals and about 20 percent among blacks, but this figure rises to 53 percent among whites and 61 percent among Asians. Corresponding data for 1950, while showing some progress among all these groups (especially the last) retains the same profile of differences according to colour: 32 percent for mixed-race, 26 percent for blacks, 59 percent for whites and 78 percent for Asians.²⁰ We may also note that in the same period there remained strong educational differences to the advantage of men within all colour groups. Today, even though gender differences have been reversed, and young women are now better educated than men of the same age, colour differences still follow the same traditional pattern.

Despite the commonly held view that Brazil has never experienced social movements based on racial identity, it should be mentioned that there was a short-lived racially based political movement in São Paulo during the 1930s, the *Frente Negra Brasileira* (Black Brazilian Front) which published a magazine *A Voz da Raça* (The Voice of Race). This embryonic movement was largely a reaction to conditions faced by nonwhites in the São Paulo labour market. From the very start of the process of industrialisation in the 1890s, industrial employers had discriminated more or less openly against coloured workers, and this pattern would continue during the Vargas era. Various studies on race relations in the city of São Paulo show that blacks faced severe obstacles in finding industrial work the sector of the labour

²⁰ IBGE, *Contribuições para o estudo da demografia no Brasil*, 2nd edition, 1970, p. 39.

market which was expanding most. (The situation was a little different in Rio de Janeiro, where employment of blacks in industry seems to have been more common, dating from the nineteenth-century and the employment of slaves in industry.) These obstacles were visible even at the level of domestic employment. Thus, a study of advertisements for domestic jobs in newspapers showed that these often specified that only foreigners or whites should apply for the post offered. In this context, the Black Front movement became a political party in 1936, only to be suppressed by Vargas along with all the other political parties in the following year with the establishment of the Estado Novo dictatorship. Curiously, its leaders were co-opted by the Vargas regime and later, when Vargas re-created the party system, these black politicians became enthusiastic supporters of the Partido Trabalhista Brasileiro (Brazilian Labour Party). Apart from this, various attempts to mobilise a racially oriented political base took place during the 1940s and early 1950s, leading to the foundation of unstable organisations 'for the progress of coloured people'. These efforts were, however, quickly neutralised and accused of having 'racist implications', and of representing 'imports of alien (i.e., American) ideologies', and had disappeared completely by the end of the 1950s.

BRAZILIAN SOCIETY, 1945–1980

For three-and-a-half decades after the end of the Second World War in 1945 Brazil experienced rapid population growth, rapid economic growth based on accelerated industrialisation, rapid urbanisation, and, consequently, rapid social change.

Between 1945 and 1980 Brazil's population grew from 45 million to 120 million. Advances in medicine, including the use of antibiotics, and improvements in living conditions led to a sharp fall in mortality rates. As a result, the population began to grow dramatically, with an annual growth rate of around three percent during the first two postwar decades. See Tables 8.1 and 8.2. The rate of population growth only began to recede somewhat from the mid-1960s when the 'modernisation' of social behaviour produced by the transition from a traditional agrarian society to a modern urban society with a dynamic industrial base, the development of means of communication, the availability of modern and efficient birth control methods and in particular (in what was an irreversible cultural revolution) profound changes in the role of women in the labour market led to a steady fall in birth rates. Although very significant differences

still existed between classes and regions, and without any direct or explicit state policies regarding family planning, the fall in the birth rate was a generalised phenomenon that affected all social groups in all regions of the country. There was at the same time, as we shall see, a radical geographical redistribution of the population, caused by migration not only between regions but also, and above all, from the rural areas to the towns.

Economic growth was largely driven by a process of industrialisation based on import substitution, the spread of capitalist methods of production in all sectors of the economy and the protection of Brazilian industry from foreign competition (while at the same time opening up the economy to foreign capital), stimulated and guided by the state. Rates of economic growth grew to unprecedented levels, under both the liberal democratic regime established with the overthrow of Getúlio Vargas and the Estado Novo at the end of the Second World War, particularly during the administration of Juscelino Kubitschek (1956–1961) which promised ‘fifty years’ development in five’ within a *Programa de Metas* (Programme of Targets) for economic and social development, and the military regime which followed the overthrow of democracy in 1964, particularly during the administrations of Generals Artur da Costa e Silva (1967–1969), Emílio Garrastazu Médici (1969–1974) and Ernesto Geisel (1974–1979). Brazil’s GDP grew at an average annual rate of 6–7 percent in the late 1950s. Between 1967 and 1973 it reached an average rate of 11.2 percent a year, with an historic high of 14 percent in 1973. This was the well-known and officially trumpeted ‘Brazilian miracle’. The GDP growth rate then started to fall away, dropping to 9.8 percent in 1974 and 5.6 percent in 1975. Even so, growth during the period of global retrenchment following the first oil crisis in 1973–1974 was still significant and compatible with the so-called historic rates of growth (an average level of 7.1 percent a year between 1973 and 1980).²¹

Brazilian industry experienced significant structural change in the post-war years. Until then the country’s industries were mainly ‘primary’ or ‘traditional’, producing goods for direct consumption (clothing, textiles and foodstuffs). Much of the postwar investment was in consumer durables, notably automobiles. And whereas consumer goods’ industries tended to be made up of quite modestly sized units, often family-run businesses, employing small numbers of people and using simple technology, durable

²¹ On the Brazilian economy 1945–1980, see Chapter 5 in this volume. On politics under Liberal Republic 1945–1964 and under military rule 1964–1985, see Chapters 2 and 3.

Table 8.5. *Changes (%) in the Sectoral Distribution of the Economically Active Population, 1960-1980*

Sector of Activity	1960	1970	1980
<i>Primary:</i>			
General agriculture. Extractive Crops and Fishing	54.0	44.3	29.9
<i>Secondary:</i>	12.9	7.9	24.4
Industry	8.6	11.0	15.7
Construction	3.4	5.8	7.2
Other Industrial Activities	0.9	1.1	1.5
<i>Tertiary:</i>	33.1	37.8	45.7
Trade and Commerce	6.5	7.6	9.4
Transport and Communications	4.3	3.9	4.1
Services	13.3	3.3	16.2
Social Activities	3.3	5.2	7.0
Public Administration	3.1	3.9	4.1
Other Activities	2.6	3.9	4.9
Total EAP	100%	100%	100%
Absolute Total Population	22,750,028	29,557,224	43,796,763

Source: Demographic censuses

goods' industries implied large-scale capital investment and modern methods of production, using more-sophisticated technology, trained manpower and professional administration. In terms of geographic concentration, most large-scale modern industry was based around the city of São Paulo, taking advantage of the externalities provided by the concentration of businesses and resources already existing there, thus further aggravating regional inequality. The greater part of the automobile industry and its associated industries, for example, were located in the periphery of the metropolitan region of São Paulo, in particular an area known as the *ABC Paulista* [after the names of three outlying *municípios*: A = Santo André, B = São Bernardo do Campo, C = São Caetano do Sul].

Accelerated economic growth in the postwar period led to changes in the sectoral distribution of the economically active population. In the first place, the historical trend for the primary sector to decline continued. In 1960 more than 50 percent, in 1970 around 45 percent but by 1980 less than 30 percent of the economically active were employed in the primary sector. See Table 8.5.

The relative (if not yet absolute) decline in the number of Brazilians employed in the primary sector in this period is a direct reflection of the

development of capitalist agriculture, and especially the expansion of the agricultural frontier in the Centre-West region, based on the large-scale production of grain (with a particular view to the export market, especially of soya), sugar cane (for alcohol fuel) and beef. The impact on employment patterns in the rural sector was twofold: there was less demand for permanent labour and more demand of occasional, seasonal workers (the so-called *volantes* or *bóias-frias*). For its part, small-scale family production, especially in the South of Brazil (where there is still a significant presence of the descendants of German and Italian immigrants) also became more technically advanced, tending to imitate larger properties both in producing for export (e.g., intensive poultry breeding) and in the mechanisation of their production processes, but also specialising in producing items with high added value and often making use of cooperative systems. The modernisation of small-scale production in the South, especially in the 1970s, led to a major emigration to the agricultural frontier of the Centre-West, providing that region with a significant group of experienced and successful entrepreneurs.²²

Conservative agricultural modernisation, based above all on turning 'feudal'-style large-scale landholdings (*latifúndios*) into a large modern businesses, meant that the legal structure of landed property changed little. The already extremely high level of land concentration was further reinforced. Thus, if we consider small landholdings (*minifúndios*), defined as being less than ten hectares in area, we find that in 1940 these constituted 34.4 percent of farms, occupying 1.5 percent of total area used for agricultural purposes; in 1980 small farms made up 50.5 percent of all agricultural establishments, but still occupying only 2.5 percent of total area. Small producers that did not survive joined the rural proletariat. At the other end of the spectrum, large estates of more than 10,000 hectares made up about 0.1 percent of all rural properties and occupied 16.4 percent of the agricultural land in 1940. And the figures were the same in 1980. Inequality of access to and possession of land remained one of the fundamental characteristics of Brazilian society. At the same time, the accelerated rate of modernisation, especially in the 1970s, was accompanied by a rapid increase in the average wage of rural workers (as well as a sharp rise in income inequalities) and a decline

²² This same social base of small-scale producers also provided some of the most important ideologues and activists of the Movimento dos Trabalhadores Sem-Terra (MST) [Landless Workers' Movement], more a Maoist revolutionary political party than a social movement in the strict sense, which was to become the most dynamic element in the movement for land reform during the 1990s.

from 85 to 67 percent during the decade in the proportion of ‘the poor’ among agricultural workers.²³

For a short period in the late 1950s and early 1960s peasants, *mini-fundiários*, and tenant farmers formed *Ligas Camponesas* (Peasant Leagues) to challenge and resist the modernisation of Brazilian agriculture, land evictions, and proletarianisation, especially in the ‘*Zona da Mata*’, the fertile sugar-producing area, of the Northeast. And taking advantage of the crisis of legitimacy of the Goulart government (1961–1964), which was then desperately seeking to broaden the precarious base of its political support, rural workers won the right to set up unions in 1962. However, in regulating the activities of these new unions, the Ministry of Labour specified that only one union in each municipality would be recognised and only one federation per state. In this way, rural unions were included in the corporatist labour legislation introduced by Vargas and subject to the same limits that restricted the activities of urban labour unions. Rural unions quickly became the main means for worker mobilisation, eclipsing the *Ligas Camponesas*. In 1963 the *Confederação Nacional de Trabalhadores na Agricultura* (CONTAG) [National Confederation of Agricultural Workers] was created.²⁴ The military coup of 1964, however, brought an abrupt end to the *Ligas* and the rural unions. CONTAG officials and those of many affiliated federations and unions were dismissed and persecuted. Although CONTAG’s activities after 1979, helped by the actions of other institutions, such as the *Comissão Pastoral da Terra* (Pastoral Land Commission), a political arm of the Catholic Church in Brazil, helped to put back the problems of rural workers and the need for effective agrarian reform into the area of public debate, social change had outpaced it. In the words of one specialist, ‘the continuous growth and diversification of Brazilian society after the 1960s, as well as trends towards proletarianisation within agriculture, deprived the ‘agrarian question’ of its original political significance. Although it kept its place in the agenda of political and social reform it no longer threatened the bases of the accumulation of capital in Brazil’.²⁵

²³ See Rodolfo Hoffman, ‘*Distribuição de renda na agricultura*’ in José Marcio Camargo e Fábio Giambiagi (eds.), *Distribuição de renda no Brasil* (Rio de Janeiro, 1991): 145–64.

²⁴ On the *Ligas Camponesas* of the late 1950s and the formation of the first rural labour unions in the early 1960s, see Chapter 2, in this volume.

²⁵ David Goodman, ‘Rural economy and society’, in Edmar Bacha and Herbert Klein (eds.), *Social change in Brazil 1945–1980: the incomplete transition* (Albuquerque, NM, 1989), pp. 122–3.

It was the secondary sector that created most new employment during the 1960–1980 period. In the 1960s industry increased its share of the labour market from 8.6 to 11 percent; in the following decade the pace of expansion increased, more than doubling the number of persons employed, and enlarging its relative share of workers to 15.7 percent. See Table 8.5. More importantly, the growth of employment in industry was basically a result of the dynamism of ‘modern’ industries: the automobile industry, metal working, electrical goods, and communications, printing, and publishing. Workers in the modern industrial sector were relatively well-paid by Brazilian standards and enjoyed life chances notably better than those available to other levels of manual workers. In the 1960s the number of workers in ‘traditional’ industries (textiles, leather, clothing, wood and furniture, food and drink, pottery, and glass) remained more or less stationary. In the 1970s, however, along with the continual growth of employment in modern industry, the numbers employed in ‘traditional’ industries grew from more than 1.5 million to almost three million, responding to increased demand in the urban markets. Growth in the construction industry was particularly notable: the numbers employed quadrupled during the 1960s and 1970s, accounting for 3.4 percent of the economically active population in 1960 and 7.2 percent in 1980. The construction industry, whose rapid growth was linked to the increase in the urban population, its demand for housing, and the growth in public works, played an important role in bringing into the labour market the mass of male workers arriving from the countryside. Urban workers who had begun their lives in the countryside or in informal employment earned higher wages. Indeed the improvement in living conditions brought about by rural–urban migration was the main factor in upward social mobility in Brazil to the end of the twentieth century. On the other hand, pressure on wages among urban manual workers as a result of the oversupply of untrained labour provided by this migration was also a defining element in increasing the inequality of wage levels. Moreover, many urban workers were excluded from the social protection offered by the state, access to which remained dependent on belonging to a union and having a *carteira de trabalho*. The social security system was an important element in reproducing in the cities the social inequality of the rural areas.

Another feature of the changing occupational structure of the postwar years, and especially the 1970s, was the expansion of nonmanual, ‘white-collar’ employment, both public and private, in the tertiary sector. The numbers employed in the modern service sector, including commerce,

transport and public administration, more than doubled and by 1980 accounted for more than 45 percent of the economically active population. See Table 8.5. Moreover, the tertiary sector in Brazil not only consistently increased its share of employment during this period, but also modified its internal structure. The 'modern' service sector, that is, both production services and those of collective consumption (social services, especially education and health), expanded at the expense of typically 'traditional' services of individual consumption. In other words, the service sector 'modernised' itself during the 1960s and 1970s.²⁶

It was in the 1960s and 1970s that inflation reached significant levels, affecting not only wage earners but also wide swathes of the middle class, and intensifying existing social inequalities. Having increased during the Second World War, inflation had been reduced to one-digit levels by the Dutra administration (1946–1951). As a result, real average wages of urban workers had risen substantially. Inflation then began to rise again and real wages fell once more. In part, this negative picture was made worse by the minimum wage policy adopted by the Vargas government (1951–1954). One of the first measures taken was to readjust the nominal level of the minimum wage to one that attempted to restore its real value related to the time of its creation, replacing losses during the Second World War and the previous government. Not surprisingly, the practical result of this measure was to revive the inflationary spiral that led to its continued worsening and the resulting erosion of wages (see Figure 8.1). The high levels of inflation in the early 1960s was a legacy of the fiscal imbalances of the Kubitschek government (1956–1961), not least arising from the construction of the new capital, Brasília, but also a consequence of the policies of the Goulart government (1961–1964) which provided generous nominal wage increases. It was a major factor leading to the military coup of 1964. The military governments in power from 1964, besides crushing working class protests, outlawing strikes, intervening in trade unions and imprisoning union leaders, imposed draconian price and wage controls in an attempt to control inflation. Direct negotiations between employees and employers were replaced by a system of automatic wage adjustments that corresponded to official indices established by the government. This 'corrective' policy which, together with the slowing of economic growth caused by reduction in demand, was actually successful in controlling inflation in the short term

²⁶ See Paul Singer, *Força de trabalho e emprego no Brasil*, CEBRAP, Caderno 3 (São Paulo, 1971).

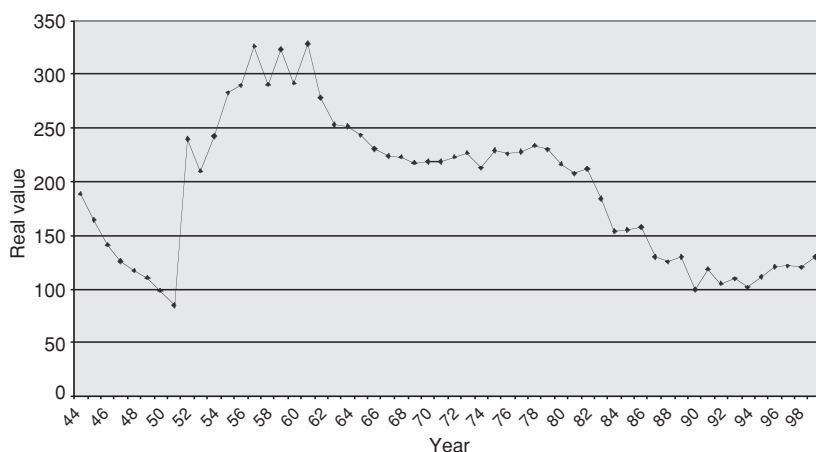


Figure 8.1. Real value of minimum wage, 1944–1998.

and slowed down the erosion of wages, with real wages slightly recovering from 1969 onwards (as may be seen in Figure 8.1 on the real value of the minimum wage over time).²⁷

Urbanisation

According to the official Brazilian definition of ‘urban’,²⁸ less than one-third of the Brazilian population lived in towns in 1940, two-thirds in 1980. Within a generation the country had gone from being a predominantly rural to a highly urbanised society. By any conventional measure, the pace of Brazilian urbanisation was impressive. For example, if we adopt the definition used in the United States, that is, areas with more than 2,000 inhabitants, the proportion of those living in urban areas in Brazil grew from about 25 percent in 1940 to almost 65 percent in 1980. Even if we take only the populations of larger towns, those with more than 20,000 inhabitants, the level of urbanisation increased from 16 percent to almost 52 percent. Although it began in the major towns of the Southeast, the process of urbanisation in Brazil soon became general. The proportion of

²⁷ For further discussion of inflation and anti-inflation policies in the post-war period, see Chapter 5 in this volume.

²⁸ The IBGE defines ‘urban areas’ in Brazil as the administrative centres of municipalities. As the latter are often relatively small in size, this definition tends to exaggerate the level of urbanisation as it is generally understood.

Table 8.6 *Percentage of the Population Urban and Concentration in the Metropolitan Areas of São Paulo and Rio de Janeiro, 1940–1980*

Year	Percentage of the Population Urban				Metropolitan Areas of São Paulo and Rio de Janeiro (%)		
	Official Definition*	Cities >2,000	Cities >10,000	Cities >20,000	Total Population of the Country	Urban Population >2,000	Urban Population >20,000
1940	31.4	25.2	18.5	16.0	7.8	30.8	51.5
1950	36.2	30.8	23.4	21.1	9.9	32.1	49.7
1960	45.1	40.4	32.3	28.8	10.6	26.4	35.9
1970	56.0	52.0	44.5	38.8	13.4	25.8	36.2
1980	67.7	64.8	56.6	51.5	17.3	26.8	34.3

Note: 'Urban areas' are defined as administrative centres of municipalities.

Source: Martin T. Katzman, 'Urbanisation since 1945', in Edmar Bacha and Herert Klein (eds.), *Social change in Brazil 1945–1985: the incomplete transition* (Albuquerque, NM, 1989; originally published in Portuguese, 1986), pp. 179, 193.

the population living in towns of over 2,000 inhabitants doubled in almost all states and in 1980 more than a third of the population in every region lived in areas with more than 20,000 inhabitants. If we bear in mind that the overall population was growing at an annual rate of nearly 2.5 percent at this time (and even more than this during the 1960s), we can see how dramatically Brazilian towns, including the metropolitan areas grew, with the inevitable negative consequences for the quality of life of those living in them. See Table 8.6.

Until the 1940s, urbanisation accompanied the rate of industrial growth. However, with the increased pace of population growth and simultaneous escalation of internal migration, between about 1950 and at least 1970, urbanisation increased faster than employment opportunities in manufacturing, producing was called 'hyperurbanisation' – the inability of the industrial sector to absorb manpower – and increased 'marginality' in working class urban sectors. But the marked increase in the rate of growth in manufacturing at the start of the 1970s, especially in São Paulo (the only real Brazilian 'industrial' metropolis), growth rates once again matched each other and the spectre of hyperurbanisation gradually faded away. As Katzman observed:

With the exception of São Paulo, most Brazilian metropolises are indeed largely commercial and service centers. In the period 1940–1980, industry employed about 35–40 percent of the labour force in metropolitan São Paulo. Among the remaining twenty larger cities, none

approached 30 percent of their labour forces in the industrial sector before 1970. Rio de Janeiro, the second largest industrial city, had had at most only 25 percent of its employment in industry. This level of industrial employment is far below that of cities in the United States at a comparable level of urbanisation.²⁹

Brazilian society was never, and probably never will be, an ‘industrial society’ in the classic sense of the phrase.

Another related aspect of Brazilian urbanisation is that of urban concentration. As we have already seen, the urbanisation process occurred throughout the country. It did not therefore produce in Brazil the structure of urban primacy found in other Latin American countries such as Argentina, where a large part of the country’s population lives in one city, Buenos Aires. Before 1960 the fastest growing towns were those at the two extremes of the urban hierarchy, small towns with up to 10,000 inhabitants and the metropolises with more than a million. From 1960 to 1970, medium-sized towns expanded most rapidly. Thus, focusing on the populations of the two largest metropolises, São Paulo and Rio de Janeiro, we find that these two areas together, which contained 7.8 percent of the country’s total population in 1940, had 17.3 percent of the total population 40 years later. But, if we take the population of these two metropolises as a proportion of the urban population (towns with more than 2,000 inhabitants), it in fact declined from 30.8 to 26.8 percent between 1940 and 1980. In truth, the growth of cities of smaller size and above all, of other metropolises, is even more impressive than that of São Paulo and Rio de Janeiro.

Perhaps the best way to measure the pace of urbanisation in Brazil, as well as evaluating the accumulation of urban social problems, is to examine the increase in the populations of the nine *Regiões Metropolitanas* (Metropolitan Regions), RMs, created under the Constitution of 1967: São Paulo, Rio de Janeiro, Belo Horizonte, Porto Alegre, Curitiba, Recife, Fortaleza, Salvador and Belém (all of which incorporated several existing *municípios*). These areas, which during the 1960s grew at an extraordinary rate, experienced a significant slowdown in growth during the next ten years. Even so, in the 1970s annual growth rates of Brazilian metropolises were usually more than 4 percent except in the Metropolitan Regions of Rio de Janeiro and Recife, which were already entering a phase of relative economic decline. And the growth of the peripheries of metropolitan areas is especially notable in this period, in some cases surpassing 10 percent per year: the periphery of Salvador 12.5 percent; Curitiba 15.4 percent; Fortaleza

²⁹ Katzman, ‘Urbanisation since 1945’ in Bacha and Klein (eds.), *Social change in Brazil* op. cit., p. 104.

Table 8.7. *Urban Population in Metropolitan Regions, Nuclei and Peripheral Areas for 1970 and 1980*

Metropolitan Regions (MR): Total, Nuclei and Peripheral Areas	Urban Population		
	1970	Inhabitants (Thousands) 1980	Annual Rate of Growth (%)
São Paulo MR	7, 866	12,184	4.47
São Paulo	5, 872	8,337	3.57
Periphery	1,994	3,846	6.79
Rio de Janeiro MR	6,838	8,620	2.34
Rio de Janeiro	4,252	5,091	1.82
Periphery	2,586	3,529	3.16
Belo Horizonte MR	1,502	2,488	5.18
Belo Horizonte	1,228	1,775	3.75
Periphery	273	713	10.07
Recife MR	1,649	2,073	2.31
Recife	1,046	1,183	1.24
Periphery	603	889	3.96
Salvador MR	1,077	1,735	4.88
Salvador	1,005	1,500	3.68
Periphery	73	235	12.52
Porto Alegre MR	1,408	2,162	4.38
Porto Alegre	870	1,115	2.51
Periphery	539	1,047	6.87
Curitiba MR	657	1,325	7.27
Curitiba	585	1,025	5.78
Periphery	72	300	15.35
Fortaleza MR	876	1,501	5.54
Fortaleza	828	1,308	4.68
Periphery	48	193	14.9
Belém MR	606	838	3.30
Belém	603	824	3.18
Periphery	3	14	16.54

Source: IBGE, *Censos Demográficos*, 1970 and 1980.

15 percent; and Belém, the smallest of the nine metropolitan regions at that time, 16.5 percent. See Table 8.7.

Clearly growth rates such as these far surpassed the ability of municipalities to provide even the most elementary services of urban infrastructure for their expanding population. The structure of Brazilian cities makes this situation worse. In contrast to cities in other parts of the world, mainly the United States, the wealthier citizens of Brazilian cities tend to live closer to the centre, while the poor live on the outskirts. This means that, in the case of Brazil, it is precisely on the least developed and poorest municipalities of

the urban peripheries, both metropolitan and nonmetropolitan, that there is a disproportionate and exponentially growing demand for provision of social services for the poor. The result of this process, in cities of varying size, was the rapid downgrading of many urban areas into *favelas*. The *favela* ceased to be purely typical of and more or less limited to Rio de Janeiro and came to be a normal part of the Brazilian urban scene.

Even if we only take into account the central nuclei of the country's big cities, the picture of uncontrollable 'favelisation' experienced throughout the second half of the twentieth century is alarming and constitutes the essential context to the serious social problems facing Brazil at the beginning of the twenty-first century. The case of the city of Rio de Janeiro may be taken as an example. Although in the 1940s the city, at that time the nation's capital, was already experiencing a clear economic decline, it was still a strong pole of attraction for migrants. In the following decade, the population of the municipality of the city of Rio grew at an annual rate of a little over 3 percent overall, while the population of the *favelas* increased by no less than 7 percent annually. With the move of the capital to Brasília in 1960, which further weakened the attraction of Rio for migrants, and with demographic developments that were already helping to slow the birth rate (Rio de Janeiro led the process of lowering the country's birth rate, reversing the trend much earlier than other areas) as well as the growing peripheralisation of urban growth, the city's growth rates soon slowed down. During the 1980s, annual growth was considerably less than one percent per year. However, even during this period, the numbers of those living in the *favelas* increased by more than 2.5 percent per year. Thus, while the total population of the city of Rio de Janeiro more than doubled in the forty years from 1950 to 1991, from 2.4 million to 5.5 million, the population of its *favelas* increased 5.7 times, from around 170,000 to almost one million. Looking at it from another angle, seven percent of the inhabitants of the city of Rio de Janeiro lived in *favelas* in 1950, almost 18 percent in 1991. The picture would probably be even more serious if we took into account the peripheral municipalities that make up the Metropolitan Region of Rio de Janeiro.

Social Mobility

The period 1945–1980 witnessed a degree of social mobility without precedent in the modern history of Brazil. Data collected in 1973 show that, although 64 percent of adult males came from a rural background (i.e., their

fathers were rural workers), only 31 percent of all workers were employed in agriculture; 43 percent of adult males were urban manual workers, but only 20 percent of them came from an urban working class background; 27 percent had nonmanual occupations though only 20 percent came from a similar background. In all, about 47 percent of adult males had improved their occupational position; only 11 percent had experienced downward mobility. We find that this pattern of social mobility essentially and mainly reflects the impact on occupational structure of urbanisation and industrialisation, in this sense constituting a quite radical experience when measured in terms of its rapidity and the far-reaching nature of its effects.³⁰

More important than the experience of mobility in itself was the fact that it was primarily upward social mobility, creating a general expectation that individuals and their families could improve their social position. Among other things, social mobility meant improved social wellbeing and access to consumption goods. For example, the percentage of households enjoying piped drinking water grew from less than 16 percent in 1950 to more than 55 percent in 1980; in the same period the number of households connected to electricity mains rose from less than 25 percent to almost 69 percent. In terms of consumer durables, the share of households with refrigerators grew from less than 12 percent in 1960 to more than 50 percent in 1980, while the percentage of those with television almost doubled between 1970 and 1980, increasing from 24 percent to 55 percent. The number of family cars increased more than tenfold between 1960 and 1980, rising from 6.6 to 67.2 per thousand inhabitants. The number of households with cars grew from less than 10 percent in 1970 to more than 22 percent in 1980. Clearly, figures such as these indicate the spread of consumer durables beyond the strict limits of the urban middle class.

Among consumer durables there are two that have a fundamental importance in the modernisation process: radio and television sets. In 1980 no fewer than 76 percent of households had a radio and 55 percent had at least one television set, with the figures for urban areas alone 79 percent

³⁰ The high *absolute* rates of mobility observable in Brazilian society at that time do not imply a weakening of class barriers in the distribution of *relative chances*, where the effect of structural change is controlled statistically. Indeed, a deeper analysis of patterns of social mobility in Brazil, based on data from the 1950s, makes an eloquent argument that 'the case of Brazil is an example of massive structural mobility moving men through a very rigid class structure'. M. Sobel, M. Hout, and O. D. Duncan, 'Exchange, structure and symmetry in occupational mobility', *American Journal of Sociology*, 91/ 2 (1985). Analyses of much newer data, from 1966 (José Pastore and Nelson do Valle Silva, *A mobilidade social no Brasil*, São Paulo, 2000) show that this generalisation remains generally valid.

and 73 percent, respectively. This represented almost complete national coverage and exposure to the mass media of the vast majority of the Brazilian people. As is well known, the importance of exposure to these means of communication rests in the fact that it creates a mechanism for positive feedback, with greater exposure leading to higher levels of absorption of 'modern' and consumerist values and attitudes, which in turn leads to a greater tendency to mobility and higher aspirations for consumption, and so on. Social mobility and consumerist tendencies are intricately connected and reflected in a marked cultural convergence between different social groups. In other words, the process of social mobility Brazilian society went through in the thirty years immediately after the Second World War resulted in a modernisation of values, attitudes and behaviour that far surpassed the limits of its inherently 'modern' groups. Modernity, especially in terms of aspiration, began at that time to permeate the behaviour of a broad spectrum of the Brazilian people.

Female Labour and the Modernisation of Reproductive Behaviour

One of the most profound meanings of modernisation is that individuals increasingly act less in accordance with their traditional roles and more on the basis of rational calculations in which costs and benefits are weighed. This is true for men, but it is true, above all, for women. In the case of Brazil there were in this period swift and profound changes in the social condition of women. In the first place, because of the speed at which post-war economic growth occurred, male manpower, of any age, was totally insufficient to meet demand. This created a space for more women to enter areas of the labour market in which they had not previously been represented. The stimulus for this participation was due directly as much to the creation of new jobs as it was due indirectly to higher wages, which increased the opportunity costs of exclusively domestic labour. It should also be borne in mind that the kind of development that took place in Brazil, involving the extremely rapid expansion of nonmanual labour, was particularly attractive to female workers since the greatest demand was in some of those occupational strata in which the introduction of women had already happened quite extensively. It is worth pointing out, however, that the mass entry of women into the labour market, almost doubling the absolute numbers of working women in the 1970s alone, occurred in all sectors of the economy, at all occupational levels and in all regions; it was a basically universal phenomenon in Brazilian society.

It is not, however, only factors of demand for labour that explain the growing levels of female participation in the labour market, a tendency that lasted until the end of the century. Nor can this increased participation be explained by a supposed impoverishment of families, related to the inability of husbands and fathers to make complete provision for their wives and children. In fact individual male incomes rose very substantially in real terms from 1950 to 1980 and family incomes rose even more, thanks to women entering the labour market. Thus, impoverishment (i.e., increased absolute privation) cannot provide a broad basis for explaining increased female participation in the labour market. Moreover, it occurred in both the boom conditions of the 1970s and the bust conditions of the 1980s, irrespective of what was happening in terms of male employment. This suggests strongly that some of the main factors in determining female participation in the labour market came from the supply side.

For women, working implies performing a role that is still to a large extent alternative to, and to some extent in conflict with, that of motherhood. The usual counterpoint to the widespread nature of increased female entry into the workplace – including older women, married women and mothers – is a swift fall in fertility. Since the mid-1960s, female fertility in Brazil has, in fact, been decreasing rapidly, as it has in many other developing countries – faster than Brazil, for example, in China or Thailand and more slowly in Mexico, India and Bangladesh. This decline was made possible mainly by the introduction of modern and efficient methods of birth control, especially the contraceptive pill, and by greater access to female sterilisation. All the censuses and studies on human reproduction since 1970 have shown that the overall fertility rate (i.e., the average total number of children a woman would have if her reproductive life followed specific fertility rates by age observed at the time of the study) has declined rapidly and consistently year to year. Thus, for the whole of Brazil, the *Taxa de Fecundidade Total* (Total Fertility Rate – TFR) fell from a level estimated to be about 5.8 children per woman in 1970 to approximately 4.3 children in 1980, a significant drop of 1.5 children in only ten years. The rapid decline in fertility continued during the following twenty years and, if the experience of developed countries is anything to go by, will continue in the future. Data from the latest study on reproductive patterns carried out in Brazil during the period under discussion show that in 1996 the TFR reached an average estimated level of 2.5 children per woman. Comparing this with the TFR in 1960, it is clear that in the space of forty years the average number of children Brazilian women bore fell by about

four.³¹ Moreover, the fall in female fertility was noticeable in all regions and in all groups and levels of society. In this sense there is a clear trend of convergence in reproductive patterns. For example, the greatest difference in TFR between the larger regions of Brazil in 1950 was 2.5 children (8.0 in the North, 5.5 in the Southeast). In 1996 the greatest difference is between the Northeast (TFR = 3.1) and the Southeast (TFR = 2.2), a difference that had fallen to less than one child on average.

It should also be pointed out that, in spite of the general decrease in the high fertility rate, during the last decades of the century rates for women under twenty years of age remained stable and teenage pregnancies (among women aged between fifteen and nineteen years) increased, often with serious consequences for the wellbeing of these young mothers. In fact, the increase of teenage pregnancies in Brazil was to be expected since it followed the pattern established in more developed countries. In any event, the situation at the end of the century gave reason for concern. For example, the 1996 data show that 20 percent of all live births in the previous year were to teenagers. This trend was particularly marked in the Northeast, where it was estimated that about 21 percent of teenage girls had become pregnant.

Another important point that should be emphasised is that the drop in the Brazilian birth rate was not the result of a deliberate policy to control the size of the population. In fact, on this issue Left and Right agreed on not involving the state. On the one hand, Marxist intellectuals denounced what was called neo-Malthusianism and tended to believe that the vaunted 'demographic problem' and the feared 'population explosion' were basically either a calculated mystification created by international capitalism or an irrelevance that could be overcome by a revolutionary change in social structures; on the other hand, on the Right, those who leaned towards geopolitical analysis inspired by militarist thinking believed that the country needed a large population to occupy its empty areas and defend the national territory, while conservative militant Catholics refused to discuss the matter given the position of the Church that artificial birth control was sinful. Thus, an informal political coalition was formed that blocked all attempts to place family planning on the public agenda – at least until the 1980s. This only began to change under pressure from the feminist movement and in the context of women's health policies.

Thus, the fall in fertility rates that occurred in Brazil was basically a result of other related social changes, such as rural migration, the spread of

³¹ *Anuário Estatístico do Brasil*, 1998.

information by means of developments in means of mass communications, the growth in public health services (here the state did play a role, albeit indirect and informal) and, above all, changes in the social status of women, especially in terms of their progress in education, as we shall see, and their rapid inclusion in the labour market. Together with some limited actions on the part of private bodies, family planning initiatives in Brazil came about through the commercial pharmaceutical system (pharmacies made the contraceptive pill easily available), either by means of the public health service or through the spontaneous actions of doctors who made surgical sterilisation available to women. Data for 1996 indicate that in Brazil as a whole, 77 percent of women of reproductive age (fifteen to forty-nine years), living with a partner, were using some kind of contraceptive method. Fifty-two percent of them had undergone female sterilisation, and twenty-seven percent used the contraceptive pill. Although use of contraceptive methods was relatively high in all the regions of Brazil, there were many variations between the regions in the combinations of the two main methods used. Thus, while the main method used in the South was the pill, used by 42 percent of couples (while sterilisation was used by 36 percent), in the North and Centre-West no less than 70 percent of couples who used contraception had resorted radical surgical sterilisation.

One final point that should be emphasised here is that, in spite of the increased drop in fertility, especially in the 1980s, the Brazilian birth rate is still quite high in comparison with international levels. We may estimate the gross Brazilian birth rate in the last ten years of the twentieth century at about twenty-two births per thousand inhabitants. This figure represents a fall to less than half of the level observed 100 years previously (estimated at about 45 per thousand for the years 1900–1910). On the other hand, comparing the figures for Brazil in the 1990s with estimates for different regions in the world, we find that the Brazilian birth rate was still well above the average for developed countries (usually between eleven and fourteen per thousand). The Brazilian birth rate was still about twice that of Western Europe, for example, resulting in significantly higher rate of population growth.

Changes in Education

In the 1950s and the start of the 1960s, there were further attempts at educational reform, with its main concern now (in contrast to the spirit of the Capanema Reform of the late 1930s and early 1940s) education for the masses. In this context, education policy came to have the status of social

policy. Education also became an important arena in the ideological battles of the early 1960s. Various bodies occupied this arena, mainly the National Students' Union (*União Nacional dos Estudantes* – UNE) as well as left-wing Catholics, militant educators and various state governments. Among the latter was that of Miguel Arraes in the state of Pernambuco, which gave birth to the literacy teaching method created by Paulo Freire known as the 'Pedagogy of the Oppressed', a method now recognised throughout the world.

The military coup of 1964 brought a substantial change in the spirit and direction of educational policy. In the late 1960s and 1970s the main concern was so-called human capital, training for the changing needs of the labour market. There was a proliferation of consultants' and specialists' reports, all proposing that urgent reforms be carried out, especially in higher education, because of the evident crisis in the country's educational system. For this reason the federal government created a network of federal universities, with at least one such institution being set up in each state of the Federation. Similarly, states and municipalities, in accordance with their respective constitutional responsibilities, increased the number of primary and secondary schools. The private school system at all levels also expanded rapidly. It now included not only institutions offering education of a far higher standard than that available in public schools to a privileged elite but schools, often operating at night, that served a much poorer population which typically worked and studied at the same time.

Important reforms were introduced in the 1960s and 1970s. The University Reform of 1968 reformed higher education institutions, imposing a structure of academic departments (in place of independent and isolated faculties) and a flexible system of credits to track students' progress, in place of the traditional system of year-to-year academic progress. In addition, postgraduate programmes in widely varying areas were created in many universities. In order to develop postgraduate education in Brazil, encouragement was given to the activities of what was then known as the *Campanha de Aperfeiçoamento de Pessoal de Ensino Superior* (Campaign for Improving Personnel in Higher Education) – CAPES, which had been created in 1951 and whose first General Secretary was perhaps Brazil's greatest educationalist, Anísio Teixeira. CAPES was set up to coordinate attempts to generate more postgraduate qualifications by means of scholarships to send students abroad in order to bring Brazilian postgraduate research up to international levels. It operated alongside the *Conselho Nacional de Pesquisas* (CNPq) [National Research Council], which had also

been established in 1951 specifically to encourage scientific development in Brazil.

All in all, it is unquestionable that very important advances in education were achieved in the period of rapid economic growth in the late 1960s and 1970s. Enrollments in higher education increased more than forty-four times in this period; enrollments in secondary education eleven times, and in primary education seven times. And nominal levels of illiteracy had fallen dramatically, from an estimated figure of 53.3 percent of adults in 1945 to 24.5 percent in 1980. See Table 8.3. However, the educational level of the Brazilian population as a whole remained extremely low by any international standard that might be adopted. For example, when we consider that functional literacy is only achieved after at least four successfully completed years of formal schooling, we find that in 1980 only 41 percent of the population had reached this level. In other words, Brazil enjoyed strong economic growth while supporting a very badly educated population. If this was possible in the 1960s and 1970s, when to a certain extent productive efficiency could still depend on cheap and ill-qualified manpower, with any necessary training being carried out 'on the job', the low level of education of the Brazilian worker would become a major obstacle when the country came face-to-face with the changes in production patterns that became necessary in the context of international competition that occurred during the following twenty years. Also, the combination of, on the one hand, growing demand for manpower with higher formal qualifications with, on the other hand, supply that, although growing, still fell chronically short of meeting this demand, probably formed and still forms, a crucial ingredient in worsening or maintaining the high levels of social inequality that are typical of Brazilian society.

Public primary education is the responsibility of the municipalities. Thus, the huge spatial inequalities in incomes and in other resources found in Brazil are translated directly into profound inequalities in terms of educational opportunities for young people. For example, in the poorest areas of the country many young people were leaving school before finishing the first four years, that is to say, they were functionally illiterate. Thus, in the poorest state in the country, Piauí, in 1980 only 18 percent of the population was functionally literate. At the other extreme, in the richest state, São Paulo, the figure was 54 percent. In addition, in Piauí no less than 62 percent of the adult population either had no formal education or less than one year of complete schooling (i.e., people who had never been to school or if they did start, did not finish even first grade)

compared with 22 percent in São Paulo (which is nevertheless a very high figure).

Poverty and Income Distribution

In respect of income distribution and standards of living, with economic growth rates at the levels observed during the period under discussion, redistributive processes would have to have been very warped indeed not to have produced some improvements in the conditions of the poorest classes. In fact, if we measure the differences in the two decades between 1960 and 1980 for Brazil as a whole, we find that, in spite of a marked tendency towards concentrated distribution of individual incomes, there seems to have been a substantial reduction of poverty.³²

Data concerning income distribution among the economically active population³³ suggest that overall average income increased 155 percent in

³² There are two basic conceptual variations relating to examining the question of poverty. The first defines poverty in an *absolute* manner by means of a way of life felt to be minimal in terms of basic necessities such as nutrition, housing and clothing. Thus, poverty is absolute privation; it is lack of the provisions that are vital for survival with a minimum of dignity. Although this 'minimum of dignity' is partly connected to cultural factors and personal preferences in terms of consumption, we may suppose that the requirements imposed by mere physical survival are reasonably universal, allowing us to establish a 'poverty line' that fits these minimum requirements. The second variation defines poverty as *relative* privation and provides a conceptual explanation of the interdependence between the phenomenon of poverty and distribution of wealth, a fact that is observable in most modern societies. This approach states that the needy are those in the segment found at the base of the distribution of wealth, for example, the 20 or 25 percent of the poorest people in the population. The problem with this approach is its proposal that there has to be a constant and permanent certain number of poor people in all societies where there is some form of inequality, however small it may be. The relationship between poverty and inequality is an empirical question, the latter not necessarily implying the existence of the former, because it is possible to have quite unequal societies that do not lack for very much, and conversely, inequality may be minimal in very poor societies. So we believe that the concept of relative privation should be reserved for studies of actual inequality, with an absolute definition being more suitable for examining the problem of poverty. This is the approach adopted in what follows.

³³ Regis Bonelli and Guilherme I. Sedlacek, 'Distribuição de renda: evolução no ultimo quarto de século', in Guilherme I. Sedlacek and Ricardo Paes de Barros (eds.), *Mercado de trabalho e distribuição de renda* (Rio de Janeiro: IPEA/INPES, 1989). Attention should be drawn to the existence of some problems that are potentially serious when measuring the income of the Brazilian population. The usual sources, the ten-yearly population censuses and the annual Household Surveys (PNADs) invariably show a total income level which is only about 60 percent of that measured by the National Accounts. Apparently, the greatest instances of under-measurement happen at precisely the extreme points of income distribution. On the other hand, the National Accounts do not include informal activities and therefore underestimate the incomes of about 40 percent of the economically active population. This suggests that underestimation of individual income (and therefore of family income also) may be significantly even higher than the figure quoted above. In addition to these problems of underestimation we should mention others, for example, the marked regional differences observable in levels of prices of goods and services.

real terms (1986 prices) during the two decades – a rate of 4.7 percent per year. More importantly, average incomes increased significantly in all deciles both between 1960 and 1970 and between 1970 and 1980. If we take average incomes in each decile group, their pattern of growth in both periods tended to take the general form of a U-curve, being lowest just at the mean of distribution, in the fifth and sixth deciles. These decile groups correspond generally to the social levels of non-qualified urban manual workers. Even so, these levels of minimum growth could boast an average rise of 3.1 percent annually. Discrepancies within this general pattern are both found in the 1960–1970 period and concern the two deciles at the extremes: while the upper decile more than doubled its income during this decade, in the same period the lower decile shows a total growth of only 9 percent in real incomes. Although the next ten years see generally lower average growth rates, there is apparently no great discrepancy in the overall pattern described, with the same substantial gains in real income in all deciles, and the same relatively higher growth rates at the extremes. This implies that the usual formula of ‘the rich get richer and the poor get poorer’ is not an accurate description of the process of income concentration at this time. Rich and poor became richer and if, on the one hand, it is true that ‘the rich got richer’, on the other hand it was not ‘the poor’ who became relatively poorer, but those who found themselves more in the centre of income distribution.

Publication of the 1970 demographic census data, which showed evidence of a definite concentration of personal income during the preceding ten years, gave rise to a debate that would drag on almost until the present day, especially since the phenomenon would be repeated in the 1970s and the two following decades. In fact, the Gini Index, the best-known indicator of income inequality, went from a level of 0.497 in 1960 to 0.565 in 1970 and to 0.590 in 1980.³⁴ To a large extent we may say that the debate resulted

³⁴ It should be noted, nevertheless, that there are some significant technical problems involved in comparing data from these censuses, especially in the case of the 1960 census. Unlike the 1970 and 1980 censuses, in which information on individual incomes were recorded in terms of their real values, the 1960 data were recorded according to the income *classes* to which individuals belonged. This procedure meant not only the loss of detailed information, but for the analyses carried out it required – even for simple calculations of average income – the adjustment of theoretical models to the data in order to discover the average value of income in each class. In the case of inequality indices, these procedures are particularly crucial because the classes in which it is most difficult to estimate the median, and which play an important role in fixing the values of the indices, are the classes at the extremes of income distribution. In spite of these problems, all the research on the development of income inequality between 1960 and 1970 is unanimous in indicating an increase in the level of this kind of inequality during this period.

in an impasse between two very different points of view on the topic: on the one hand were ranked the strongest critics of the military regime who saw income concentration primarily as a result of the economic policies adopted during that period, especially wage policies (i.e., wage controls, or the 'wage squeeze') and the repression of unions carried out after the 1964 coup, in particular during the stabilisation period between 1964 and 1967.

In the other camp were those who tried to demonstrate that income concentration in the 1960s was a result of the accelerated rate of economic growth. Although various writers have contributed to this side of the debate, the one whose work had most impact was Carlos Langoni. He highlighted two mechanisms that caused income inequality: on the one hand, the changes in the composition of the workforce (i.e., its distribution according to sex, age, education, region, and economic sector); on the other hand, the incidence of marked inequalities in the labour market resulting from the relative increase in demand for trained manpower (in other words, with formal education or experience) faced with a supply that was unavoidably unchangeable in the short term, would have led to a wider income gap between more qualified workers and their less well-trained counterparts. Langoni emphasises the role of education in the workings of inequality and tries to show also that the very improvement in the educational level of the labour force that took place at the time would have made a significant contribution to the increased concentration of income that took place. In fact, according to his analysis this was probably the most important factor, accounting for about 35 percent of the increase in inequality, with 23 percent of this change being attributable to differences in average gains in income at the various levels of education.³⁵ It also seems clear to us that changes in the profile of the labour force, especially the rapid introduction of women, and the even faster shift of rural workers to urban areas probably played an important part in maintaining the wide differences in income. In particular, the oversupply of unqualified manpower in towns, which more or less correspond to the medium-level deciles in income distribution, seem to explain the particular U-shaped pattern of real income growth levels in the 1960s and 1970s that was described previously.

One important aspect of the information concerning income distribution in Brazil should be mentioned here. The sources of this information are the population censuses and annual household surveys that are

³⁵ Carlos Langoni, *Distribuição de renda e desenvolvimento econômico no Brasil* (Rio de Janeiro, 1973).

also carried out by the IBGE (the well-known PNADs). These studies essentially record income from work. In fact, both income from capital and income from property do not have much importance, either relatively or absolutely. Thus, the high levels of income concentration that have been found, which make Brazil the 'world champion in inequality' and are such a cause of shame for Brazilians, are *not* related to earnings differentials between capitalists and rentiers on the one hand, and workers on the other hand. In other words, contradicting some tempting and widespread interpretations, statistics on income inequality in Brazil are basically restricted to inequalities among workers.

However, in dealing with the question of well-being, the best indicator is not the distribution of personal income, but rather the distribution of family income, given the role carried out by the family in allocating resources and consumption. It is the family budget that provides the best measure of the quality of life enjoyed by family members even though the distribution of resources and consumption within the family is almost never completely uniform. Thus, as well as changes in the incomes enjoyed by economically active family members, at least two other factors will be relevant in the analysis: *the number of active members* and *the overall size of the family* (i.e., the total number of family members). Given what was stated in this section concerning the increase in female participation in the labour force and the resulting drop in the numbers of children Brazilian families are having, it becomes clear that profound changes were occurring in per capita family income.

Studies on family income not only indicate a modest but consistent fall in levels of concentration of per capita family income, but also show a significant fall in poverty during the 1960s and 1970s. For example, Rodolfo Hoffman applied the system proposed by Amartya Sen in order to examine the development of poverty in Brazil in the light of the 1970 and 1980 census data.³⁶ After deciding on a 'poverty line' – that is, an income level below which a family may be classed as 'poor' – defined by Hoffman as family income, in both years, equivalent to one minimum wage in August 1980, the first means Sen proposes to measure aggregate poverty is the *proportion of poor families* in the total population, indicated by the symbol *H*; the second poverty indicator Sen proposes measures the aggregate of how far each family is from the poverty line, which gives the measure *I*,

³⁶ Rodolfo Hoffman, 'A pobreza no Brasil: análise dos dados dos censos demográficos de 1970 e 1980', work presented at the VI Encontro Brasileiro de Econometria (São Paulo, 1984).

and is called the 'poverty gap'; finally, Sen proposes one last indicator of poverty, inequality of income among the poor, indicated as *G* and measured by means of the familiar Gini coefficient, but now limited to only poor families. Hoffman's results show that, with the exception of the income gap, *I*, and the inequality coefficient among the poor, *G*, in the Northern region – at that time still essentially a rapidly expanding frontier zone – all other poverty indicators fell between 1970 and 1980. The proportion of the poor in the total population fell by almost half in Brazil as a whole. And the decline was not greater only because of the weak development in the Northeast region which, even so, saw its level of poverty reduced by about 36 percent. In other regions the fall was almost uniform, with reductions varying between 52 percent in the Northern region and about 58 percent in the Southeast.

Similar conclusions concerning poverty reduction between 1970 and 1980 were also arrived at in a study by José Pastore and his collaborators. Concentrating on situations of 'extreme poverty' defined as those families who survive on per capita family incomes of at most a quarter of the minimum wage (which, by and large, also corresponds to Hoffman's definition since the size of Brazilian families varied between 4.4 and 4.8 during that period), these authors conclude: 'The data from the 1980 Census show a distinct drop in the percentage of families in situations of extreme poverty . . . from 44 percent in 1970 to 18 percent in 1980.'³⁷

Race, Colour and Class

During the period 1950–1980 perceptions concerning the nature of race relations in Brazil went through a crucial change. At the start of the 1950s, faced with the horrors that Nazi racism had provoked in the recent past and inspired by the benign picture described in Donald Pierson's 'Salvador Hypotheses', in which Brazil was a 'neutral point' on the world scale of racism, UNESCO decided to finance wide-ranging research on the country's race relations. It seems that the underlying motive for this research was the aim of using data collected in Brazil as propaganda to spread the idea that a racial democracy like Brazil might be a viable solution for other multiracial societies. It goes without saying that the results were not exactly what were expected.

³⁷ José Pastore, Hélio Zylberstajn, and Silvia Pagotto, *Mudança social e pobreza no Brasil: 1970–1980. O que ocorreu com a família brasileira?* (São Paulo, 1983).

The UNESCO study was carried out in the two largest metropolises of the Southeast (São Paulo and Rio de Janeiro) as well as two less industrialised cities (Salvador again and Recife) and four rural communities in the Northeast. Later, the group involved in analysis of São Paulo, the so-called Paulista School, extended its research to all the state capitals of the Southern region (Porto Alegre, Florianópolis and Curitiba), including also a historical analysis of the older coffee-producing rural areas of the states of Rio and São Paulo. The studies relating to 'traditional' Brazil (i.e., Recife, Salvador and the four rural areas) to a large extent, as expected, tended to support the 'Salvador Hypotheses', emphasising the lack of racial discrimination and stressing the importance of class rather than race.³⁸ In striking contrast, the studies of the more industrialised areas showed unequivocally that racial prejudice was strong and apparently growing. The Paulista School for the first time seriously questioned the idea that Brazil was truly a 'racial democracy'.

Beyond the empirical evidence of significant levels of racial prejudice, the Paulista School also undertook an innovative, Marxist-inspired analysis of race relations in the more industrialised parts of Brazil. The general approach is to confront the problem of race relations by tracing two basic dimensions, along the general lines of historical materialism, supposedly describing the 'structural' element in the Brazilian racial situation: one dimension, which is specifically social (i.e., structural) refers to the emergence of industrial capitalism or a 'competitive order', dealing with its impact on the abolition of slavery and subsequent problems of integrating the negro into the emerging class structure; the second dimension consists of the psychological-attitudinal (or super-structural) aspects of the 'colour problem', as it is expressed by prejudiced and discriminatory behaviour.³⁹

The analysis of the first dimension, the integration of the negro into the class structure, basically follows a historical approach that covers the

³⁸ These results are perhaps better summarized by Harris, who says: '... there are no subjectively meaningful Brazilian social groups based exclusively upon racial criteria... In the actual dynamics of everyday life, superordinate-subordinate relationships are determined by the interplay between a variety of achieved and ascribed statuses, of which race is an important but not decisive element... A Brazilian is never merely a 'white man' or a 'colored man', he is a rich, well educated white man or a poor, uneducated colored man. The outcome of this qualification of race by education and economics determines one's class identity... There are no racial groups against which discrimination occurs. Instead, there are class groups. Color is one of the criteria of class identity, but it is not the only criterion'. Marvin Harris, *Patterns of race in the Americas* (New York, 1964), pp. 59–61.

³⁹ Florestan Fernandes, *O negro no mundo dos brancos* (São Paulo, 1972), p. 73.

period starting with the abolition of slavery in 1888 up to the 'bourgeois revolution' of 1930. Here the main idea is that the coloured population, instead of being integrated into the emerging proletariat, was inexorably pushed into the *lumpenproletariat*. Culturally dispossessed and still bearing the psychological scars of slavery, the black population found itself in an unfavourable position from which to adapt itself to competition. The ex-slave lacked the education and social skills to adapt to the conditions of the competitive labour market.⁴⁰ The ex-slave also faced competition from the European immigrant for which he was in a disadvantageous position. As a result, he was pushed to the margins of society while the immigrant rapidly rose up the social ladder.

However, when turning to the second dimension, the question remained of how to explain the widely documented evidence of prejudiced and discriminatory attitudes that were so widespread among the population and how to reconcile this explanation with the idea of there being no institutionalised discrimination? Here we have two competing explanations. One, the more orthodox, is a Marxist version of the 'Salvador Hypotheses': the race question must be reduced to a question of class, with the ethnic consciousness being seen as a false consciousness, with prejudice and discrimination seen as an ideology of the ruling class, as instruments to destroy solidarity within the working class, as components of the social consciousness of domination that will tend to disappear with the emergence of 'class consciousness' and the resulting materialisation of the proletarian revolution.⁴¹

The second explanatory approach is based on a theory of social change in which 'modernism' and 'traditionalism' are not polarised points on a continuum, as they are usually taken to be in studies on modernism, but as two separate 'dimensions' continually existing together,⁴² with present-day social patterns understood as a combination both of new forms and of survivals from the past. Thus, the underlying nature of the racial problem in Brazil is that the old asymmetrical type of race relations, formulated to regulate contact between masters and slaves, has survived in the new social system. Thus, when the competitive order is finally and fully established,

⁴⁰ For example, Florestan Fernandes observes that 'by reason of the lack of prior socialisation, he [the black man] could not evaluate the type and limits of the obligations arising from the labour contract. This was seen as perpetuating slavery by other means and, as if, by selling his labour, the worker were selling himself'. Fernandes op. cit., p. 89.

⁴¹ See, for example, Otávio Ianni, *Raças e classes sociais no Brasil* (2nd edition, Rio de Janeiro, 1972), p. 234.

⁴² Fernandes, op. cit., p. 73.

these leftover attitudes from the old slave order will disappear and the black person will integrate with the class society. It is worth pointing out that both explanations put forward by the Paulista School for the existence of the prejudiced and discriminatory attitudes that have been empirically documented in postwar Brazil share the belief that racism and industrial capitalism are for some reason incompatible, with the former tending to disappear in the process of development.

Unfortunately, concerning empirical data on racially based inequality, it should be noted that statistics on race relevant to the period from the end of the Second World War to the start of the Brazilian economic crisis at the end of the 1970s, are very difficult to find. This is because the 1960 Demographic Census data were not completely processed and information concerning colour was not included in the 1970 census. For a thirty-year period (1950–1980) Brazilian society had no reasonably reliable and official nation-wide information concerning its racial makeup nor about the socio-economic conditions of its coloured population.

The decision to suppress 'colour' in the 1970 census came in the aftermath of the publication of a series of anthropological studies during the 1960s on the topic of racial identity in Brazil. The conclusions of these studies were unanimous in pointing out the fluidity, ambiguity and contextual nature (i.e., its dependence on the context of interaction as well as the relative status of the people involved) in working out coloured identity. In the most influential of these studies, Harris reports the results of his research in a fishing village in the state of Bahia, in which 'a sample of 100 village neighbors and relatives were shown photographs of three full sisters and asked to identify the race of each. In only six responses were the three children identified by the same racial terms . . . It was found, in addition, that a given Brazilian might be called by as many as thirteen different terms by other members of his community.'⁴³ Thus, the Brazilian Census Bureau was accused of using an 'un-Brazilian' form of racial classification (even though this official classification was already in use at the start of the twentieth century and appeared regularly in official documents recording births and deaths) and in this way distorting a much more complex picture. Faced with this uncomfortable situation, the 1970 census specialist commission requested a report from two respected social scientists, the sociologist José Artur Rios and the anthropologist Manuel Diegues Júnior, for advice on how to proceed in relation to the section

⁴³ Marvin Harris, *op. cit.*, p. 57.

concerning colour. Rios's report opposed the inclusion of this section on the grounds that the concept of race lacks scientific validity. The report by Diegues Júnior, although it also pointed out the dubious scientific status of the concept of race, favoured including the section as it might help to study both the way in which Brazilians defined themselves racially, and also the socioeconomic differences that accompany this definition. Having received these contradictory reports, the decision of the directors of the IBGE was not to include the 'colour' section in that year's census and to carry out a special, more thorough, study on the topic. This was done through the 1976 PNAD (National Household Sample Study), which contained the first collection of microdata on racial inequality at the national level available to interested researchers in electronic form. These data were made available for public use in 1979 and their preliminary analysis provided an argument for groups of activists from the 'Black Movement' to demand the reintroduction of the 'colour' section in the 1980 census.

BRAZILIAN SOCIETY IN CRISIS, 1980–2000

Many of Brazil's social problems in the last twenty years of the twentieth century, though historically determined, were rooted in two largely 'lost' decades as far as economic growth was concerned. In 1981–1983, as a result of the second oil crisis of 1979–1980 (and the economic policies adopted to deal with it) followed by higher international interest rates and the debt crisis of 1982, the Brazilian economy entered its most severe recession of the entire twentieth century. After almost forty years of un-interrupted economic growth (except for the period 1963–1967) there was a sharp fall in GDP in 1981 and again in 1983 (to the level of 1978), with practically zero growth in the intervening year. The economy recovered somewhat between 1984 and 1987 but declined again in the late 1980s and returned to negative figures between 1990 and 1992. The recovery of the mid 1990s was weaker than that of the mid 1980s and a succession of external crises led to virtually zero growth between 1997 and 1999.⁴⁴

The economic situation was complicated by the transfer of political power from military to civil control in 1985 and the beginnings of the transition to democracy.⁴⁵ The Sarney administration (1985–1990) had

⁴⁴ On the Brazilian economy in the 1980s and 1990s, see Chapters 6 and 7 in this volume.

⁴⁵ On the transition from military to civilian rule and politics after 1985, see Chapter 4 in this volume.

little legitimacy and was politically weak. It therefore had to seek political support by accommodating allies, making widespread and predatory use of the state apparatus, which made the option of strengthening public finances by means of fiscal austerity an unpopular choice. Various attempts to fight the inflationary spiral by more or less painless methods were made. All of them failed. In the last month of Sarney's government the monthly rate of inflation reached almost 100 percent. The government of Fernando Collor de Mello (1990–1992) led the Brazilian economy in a radically new, 'neo-liberal' direction, opening it up to foreign trade, substantially reducing state activity (especially in terms of its direct involvement in productive activities by privatising nationalised industries and public services), and giving a high priority to macro-economic stability (i.e., low inflation and balanced budgets) and the development of economic policies to attract private foreign investment. Collor, however, failed in his attempt to kill the tiger of inflation 'with one well-aimed shot'. Macro-economic stability would only be achieved by the administration of former Vice-President Itamar Franco following Collor's impeachment in 1992, through the implementation of the *Plano Real*, an ingenious plan for eliminating inertial inflation, in July 1994. Real value of minimum wage which had fallen since 1978 reached lowest level in 1994.

Since the population continued to grow at an annual rate of 1.9 percent in the 1980s (falling to 1.5 percent in the following decade), this fluctuating but generally poor economic growth performance implied significant falls in per capita incomes at various times during these two decades. If we take 1980 as a base year with a value equal to 100, we find that the average wages of the economically active population fell steadily in the early 1980s, recovered to a value of 121 during 1986 (the year of the *Plano Cruzado*, temporarily the most successful of the several stabilisation plans of the late 1980s and early 1990s), fell again in the following two years, only to recover to the modest level of 109 in 1989 and then fall back to 89 in 1990. See Table 8.8. It should, however, be pointed out that this was not the case in all sectors of the economy. Some protected sectors were actually able to increase their real income levels, thus aggravating existing inequalities in wage levels. For example, industrial wages in São Paulo showed significant relative increases at this time, culminating in an average wage level in 1989 about 66 percent higher than in 1980. During the middle and late 1990s the real value of the minimum wage increased, but in 1999 it was still only at the level it had been in 1989.

Table 8.8. *Incomes 1980–1990 (1980 = 100)*

Year	PIB per Capita	Per Capita Family Income	Total Family Income	Industrial Wages in São Paulo	Average Wages of Economically Active Population
1980	100	100	100	100	100
1981	93	88	87	105	89
1982	92	101	97	107	—
1983	87	70	67	94	76
1984	89	76	71	97	75
1985	94	91	85	120	87
1986	100	134	125	151	121
1987	101	100	91	144	93
1988	99	93	84	153	92
1989	100	106	94	166	109
1990	94	97	81	143	89

Source: Ricardo Paes de Barros, Rosane Mendonça and Sonia Rocha, *Welfare, inequality, poverty, social indicators and social programs in Brazil in the 1980s*, mimeo (Rio de Janeiro, 1993), p. 5, table 1.

Urbanisation after 1980

As we have seen, in the course of the second half of the twentieth century Brazil was transformed from a basically rural to a predominantly urban society. And the rate of urbanisation was maintained in the last two decades of the century, a period of economic crisis and low economic growth. In 1950 around 36 percent of the total population was classified as urban; by 1980 this figure had risen to 67 percent; and in 2000 it was more than 81 percent. It should be noted that, although urbanisation was a national phenomenon, there were great regional differences. Urbanisation increased most rapidly in the North and Northeast regions in the final decades of the century: in 1980 only 50 percent of the regional population in both regions was urban; in 2000, 70 percent was urban. In the Southeast, however, the most populated region of Brazil, almost 90 percent was classified as urban, in the South and Centre-West 81 percent and 87 percent, respectively. This growth in the urban population not only reflects large-scale immigration from the countryside and significant natural growth but also the inclusion of new areas classified as urban in the later censuses.

In 1980 Brazil had ten cities with populations over one million (compared with four in 1960), fourteen with populations between half a million and one million (compared with six in 1960). The seven metropolitan regions created in the 1970s accounted for 29 percent of the total population. But

Table 8.9. *Number of Cities by Population, 1960–1991*

Population	1960	1970	1980	1991
100,00 to 200,000	28	60	95	97
200,000 to 500,000	11	19	33	85
500,000 to 1,000,000	6	9	14	25
More than 1,000,000	4	7	10	12

Source Milton Santos, *A urbanização brasileira* (3rd edition, São Paulo, 1996), p. 87.

it was the number of medium-sized cities that had risen most dramatically between 1960 and 1980: cities with populations between 200,000 and 500,000 from eleven to thirty-three and cities of 100,000–200,000 inhabitants from twenty-eight to no less than ninety-five. After 1980 the rate of urbanisation slowed somewhat, most sharply in the metropolitan regions and larger cities. During the 1980s it was cities with populations between half a million and a million and, more particularly, cities with populations between 200,000 and half a million that grew fastest, from fourteen to twenty-five and from thirty-three to eighty-five, respectively. See Table 8.9. Nevertheless, in 1991 30 percent of all Brazilians lived in cities of a million or more inhabitants.

In the second half of the 1980s and in the 1990s, the dynamics of internal growth in the metropolitan regions became increasingly unsustainable. There was increased displacement of the urban population from the central the peripheral *municípios*. To a certain extent this was a process of moving poverty to the peripheries of urban centres. ‘Urban periphery’ is often a metaphor to describe a situation of extreme poverty (it would be better to use the term ‘social periphery’). The ‘peripherisation’ of poverty and social exclusion became general throughout almost the whole country, as *favelas* and slums, with inadequate transport, housing and sanitation services, spread throughout towns of all sizes in all the regions of Brazil despite being the most visible and problematic in the larger metropolitan areas. For example, in the mid-1990s almost 20 percent of the inhabitants of the largest metropolis in South America, São Paulo, were living in *favelas*; 2.4 million *paulistanos* lived in illegal settlements and 1.5 million lived in substandard housing. Obviously the actual scale of these problems, together with all their consequences for urban governability and social coexistence, particularly in terms of violence, make this one of the greatest challenges Brazil will face in the twenty-first century.

Linked to the social change caused by large-scale urbanisation, we should at this point underline the importance of a new development in Brazilian society that appeared in the last twenty years of the twentieth century: increasing lack of personal security. As we have seen, mortality rates fell steadily and life expectancy increased significantly throughout the whole of the second half of the century. However, within this overall positive picture we find that deaths from external causes, notably homicide or other violence-related deaths, have consistently increased among the causes of death. In fact, homicide is now the main cause of death of those aged between fifteen and forty-four. Also, and this is true of the whole of Brazil, in urban areas, particularly the large metropolises, this phenomenon is now a plague of truly tragic proportions. Brazil entered the twenty-first century with one of the highest murder rates in the world, about four times that of the United States.

The rise in Brazil's murder rate coincided with the beginnings of Brazil's economic crisis in the early 1980s, more than doubling in the following twenty years from just over eleven per 100,000 in 1980 to more than eighteen in 2002. In the big cities, this development was even more serious. For example, in the city of São Paulo the murder rate more than tripled during this period, from seventeen to fifty-four per 100,000. See Figure 8.2. The national figures conceal the fact that the risk of death by homicide in Brazil is essentially confined to the *male* population: in 2002, the murder rate among women was estimated at a little more than four per 100,000, while it was more than fifty-three per 100,000 for men. Moreover, more than half of murder victims were *young* males aged between fifteen and twenty-nine.

The reasons for this are uncertain and controversial. There clearly is a significant association between local income levels and murder rates, between poverty and violence. But many other factors are involved, such as the failure of the state in terms of policing, the spread of the illegal sale of drugs and arms, the prolonged economic crisis, and the rise in unemployment, which especially affects the young. The violence is essentially urban, but murder rates in rural areas of Brazil also rose significantly, largely as a result of conflict over land.

The Labour Market and Social Mobility

From 1945 to the end of the 1970s, a period of rapid economic and demographic change, social stability had been maintained in part by the high rates of upward social mobility, itself largely facilitated by the growth of

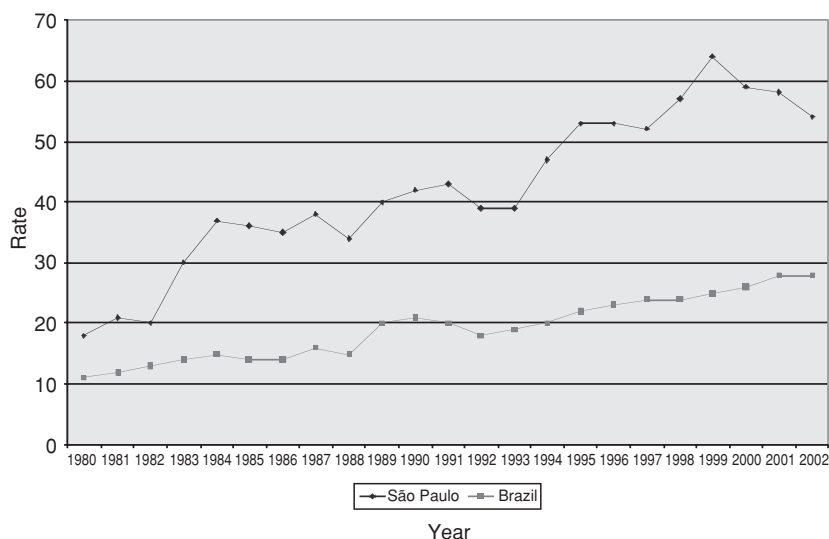


Figure 8.2. Homicide rates per 100,000 people: Brazil and the city of São Paulo, 1980–2002.

urban-industrial employment. It might have been expected, therefore, that the lower rate of economic growth in the 1980s would have produced a rise in unemployment, especially during the recession at the start of the decade, and especially in the metropolitan areas of the Southeast and the South. However, this does not seem to have been the case. Unemployment in fact fell in 1982 relative to previous years, and in 1987 it was at a level almost half that found in 1980. What, therefore, happened in the labour market during the 1980s?

The experience of accelerated growth in the thirty years between 1950 and 1980 called into question some very common ideas at the time about whether, in the situation of dependent development, the import substitution industrialisation would be able to create jobs fast enough to avoid increasing the oversupply of labour, especially in the urban areas. Thus, in the absence of institutional protection mechanisms such as unemployment insurance, it was felt that there would be a gradual expansion of a residual ‘marginal’ or ‘informal’ sector of minimal productivity, the main function of which would be to furnish precisely the means to survive on the fringe of the modernised economy. This informality would be linked to poverty and, according to ideas current at the time, the ‘lumpenproletariat’ would provide a ‘reserve army’ of labour.

The experience of the 1980s substantially changed ideas about the *nature* of this informal sector, even though a great controversy had persisted concerning the concept of 'informal' labour.⁴⁶ First of all, it became increasingly clear that informality could not be understood simply as being synonymous with poverty and under-employment. In fact, evidence at the time suggested that wages in the informal sector were often higher than in some of sectors of the formal economy, since a great number of so-called informal workers were earning more than the minimum wage. Also, and in part as a result of this, evidence also pointed to the existence of a significant amount of voluntary entry into this sector.

A second point to consider is that the existence of a significant informal sector has, as we have seen, always been a characteristic of traditional Brazilian society, as it has of other Third World countries. Moreover, it could also be found in the same period in advanced capitalist countries such as Italy, Spain, Great Britain, and even the United States. What this common experience has done, in effect, is to underline the great internal heterogeneity of the sector, since it included both the waged worker with no legal contract and small businessmen and proprietors. In the case of many economies of the periphery such as Brazil the basic reason for maintaining and even expanding the informal sector seems to be the coexistence of a plentiful supply of labour with wide and meticulous regulation and protection of waged labour, which causes companies – especially in a context of economic uncertainty and increased competition – to be tempted to make use of mechanisms to avoid restrictions on flexibility and reduce labour costs. In addition to labour laws, which are quite onerous in Brazil, there are the increasing restrictions that union power has placed on business (which showed themselves to be particularly problematical in more competitive sectors where it is more difficult to pass on costs) and, no less importantly, the often Kafkaesque legal requirements imposed on the creation and operation of micro- and medium-sized businesses. In these cases, the basic mechanism through which relations between the formal and informal sectors operated was that of subcontracting services, indicating that informality occupies its own space in the gaps in the capitalist production system, even of the most advanced type, and increase in importance in contexts where flexibility in production and the reduction of labour costs

⁴⁶ In general, this concept is seen as referring to labour situations characterised by the absence of (1) a clear separation between capital and labour; (2) a contractual relationship between both; and (3) a workforce receiving wages and whose conditions of work and payment are legally controlled.

become more acutely necessary as was the case in the successive crises that affected Brazil in the 1980s.

Examining employment trends by sector in Brazil during the 1980s reveals some peculiar aspects. During the recession period, 1981–1983, agricultural employment fluctuated, but there was a tendency for it to decline. Employment in the formal urban sector remained stable, a little above the 1980 level. The informal sector seems to have experienced a marked expansion during this period, reaching in 1983 a level 27 percent higher than that of 1980, which probably explains the (unexpected) declining pattern in open unemployment during this period. In the recovery period (1984–1985), all three sectors expanded, with growth in the informal sector particularly vigorous, reaching a figure 49 percent above the level of 1980. After 1985, while agricultural employment fell to about the same level as 1980, both formal and informal sectors continued to experience significant growth, with the formal sector reaching 25 percent and the informal reaching 69 percent more than their respective levels in 1980.

One further point deserves mention: if we divide formal sector employment into two subsectors, public and private, we find that the latter actually shows a decline during the whole of the period studied, falling to 89 percent of the initial level at the end of the recession in 1983 and slowly recovering from then on, arriving in 1986 to within only two percentage points of the figure recorded in 1980. In contrast, public sector employment expands continually, quickening its pace after 1984. It is estimated that in 1986 there were 43 percent more public posts than in 1980, a growth trend that probably carried on throughout the rest of the decade and which was greatly influenced, of course, by the political-electoral cycles following the end of military rule in 1985 and the transition to a fully democratic political system. It is clear, therefore, that the declining level of open unemployment in this decade is explicable by the growth of both the informal sector and public employment.

Still on the subject of the public sector, we may also note that the expansion of employment here was accompanied by strict wage controls, with the sector's real wages falling to the extent that in 1984 they reached the equivalent of 78 percent of their 1980 level. After 1984 however, public sector wage levels recovered sharply to equal those in the private sector, that is, about 17 percent higher than those at the start of the decade. Earnings equivalence between the two sectors tended to be maintained, more or less, for the rest of the decade. For this reason, after 1984, the public sector starts to show a dangerous combination of two factors: the increase in

the number of employees and the rise in average earnings. At the end of the decade these two ingredients had become significant components of the growing public deficit, aggravated by judicial decisions ordering the government to compensate losses in earnings brought about by successive stabilisation plans.

In terms of the main objective of public policies, the war on poverty and extreme deprivation, the 1980s witnessed a significant step backwards. With the exception of 1986, an exceptional year because of the impact of the Cruzado Plan, each year showed an increase in the incidence of poverty. In 1983 the proportion of poor families in the Brazilian population – according to the same criteria discussed earlier in this chapter – was almost 31 percent, compared with 18 percent in 1980, although the percentage fell to 23 percent in 1987. In the 1980s urban poverty increased to such an extent that for the first time numbers of the poor in urban areas almost equalled those of rural areas.

Brazil's occupational structure in the 1980s was generally stable, but the new economic model at the beginning of the 1990s introduced important modifications in the labour market. The opening up of the economy and Brazil's greater exposure to foreign competition led many companies in a wide range of sectors to restructure and rationalise their production processes, with the following results: a certain deindustrialisation of the labour force; the reduction in all sectors of the formal employment that enjoyed the benefits and protection of labour legislation (whose specific value, in any case, had been already been greatly nullified by the Constitution of 1988, the so-called Citizen's Constitution, which made these rights and benefits almost universal); third-party subcontracting of economic activity, with increased employment in the sectors of commerce and services which, because of their traditionally low level of formality in labour relations, also contributed even more to the general tendency to informalisation, and the growth of open unemployment, which reached historically unprecedented levels.

Thus, the contraction in industrial employment (as well as the increase in open unemployment) appears in a much more noticeable way in the main metropolitan regions generally, but more particularly in the state of São Paulo, where Brazilian industries had until then been strongly concentrated. At the same time, between 1992 and 1997, the country's working population grew by almost four million, 63 percent of new jobs being created in the areas of services, trade and the construction industry, traditionally labour-intensive fields but with low levels of formality. Numbers of new jobs also

increased in social services (14.6 percent), in auxiliary economic services and in transport and communications (7.9 percent).

Between 1981 and 1999 the economically active population in Brazil grew from about forty-five million workers to almost sixty-six million, an increase of 47 percent, an annual rate of growth of around 2.2 percent. However, this growth rate varied widely over time: between 1981 and 1990 it was almost 3 percent a year, in the following ten years a little less than 1.4 percent, while the population grew by 1.9 percent per year in the 1980s and 1.6 percent in the 1990s. The rural workforce as a proportion of the total fell from almost 29 percent in 1981 to a little more than 20 percent in 1999. The numbers of workers in urban employment as a proportion of the total economically active population continued therefore to increase in the final decades of the century. The proportion in manual work grew from 42 percent in 1981 to 45 percent in 1999, in nonmanual work from 28 to 34 percent. Industry, however, was no longer the driving force of the change in Brazil's occupational structure. The proportion of the labour force employed in industry, both 'modern' and 'traditional', fell slightly, from 19.8 to 19.0 percent. The percentage of people in informal and insecure employment, what we might call the 'urban sub-proletariat', grew from 22.4 to 26.1 percent. This relatively modest change conceals, however, a quite considerable increase in absolute numbers: from 10 to 17.3 million. Nonmanual labour accounted for 12.9 percent of the economically active population at the beginning of the period, 13.6 percent at the end: in absolute terms an increase of 55 percent in the total numbers of workers. The 'intermediate' group of university-educated professionals, supervisors and technicians grew from 7.7 to 9.9 percent, members of the liberal professions, directors, and owners of companies from 4.6 to 6.6 percent, and self-employed businessmen from 2.3 to 3.9 percent.

One significant change in the labour market in the last twenty years of the twentieth century deserves special mention: the marked rise in the numbers of women entering the labour force – continuing and deepening a trend since at least the 1960s. In global terms, while the growth rate of economically active men was about 1.5 percent per year in this period, the female rate reached 3.4 percent, that is to say, more than double. The different rates of inclusion of men and women in the labour market also changed from one decade to the other: 2.3 percent for men and 4.5 percent for women during the 1980s, 0.8 percent for men and 2.3 percent for women in the 1990s. The entry of women into the workforce represented almost 55 percent of the increase in the economically active population in the last

twenty years of the century: 49.7 percent of the total increase in the 1980s, no less than 63 percent in the 1990s. In 1981 women constituted around 31 percent of the economically active, by 1999 this had increased to 39 percent.

The pattern of occupational mobility and the overall class structure changed less than might have been expected. A recent study of class structure and patterns of social mobility among the male population of Brazil between 1973 and 1996, based on the familiar international classification of classes proposed by the European sociologists Erikson, Goldthorpe and Portocarrero, shows that even today at least half of men aged between twenty and sixty-four come from working class rural families. The study also shows, however, the extent to which differences in living standards are associated with different social classes. Although there has been an overall improvement in general living conditions and a resulting decline in inequality in this respect, there persists a strong relationship between higher income and higher education as well as inequality in terms of higher education and family income. The country's modern class structure is still stamped with the rural legacy and at the same time, in spite of the data showing significant opportunities for social mobility and large-scale movements of people, a great permanence in the differences between classes enjoying greater or lesser degrees of privilege, with levels of inequality still quite high. Brazil is an extremely dynamic society with a high degree of social mobility, especially the mobility brought about by structural changes (such as industrialisation and urbanisation), but at the same time there is an extremely rigid class structure that is highly resistant to change.⁴⁷

The Expansion of the Education System

One of the important facts concerning the last twenty years of the twentieth century is that, in spite of the cycles of economic crises that have afflicted the country, Brazil has experienced a robust and consistent expansion of education. Thus, for example, the rate of adult illiteracy, which was 24.5 percent in 1980 fell to 19.1 percent in 1990 and to 14.8 percent in 2000. See Table 8.3. The illiteracy rate among children (those aged from ten to fourteen years) fell from 12 percent in 1992 to around 4 percent by the end of the century.

⁴⁷ Carlos Antonio Costa Ribeiro, 'Estrutura de classes, condições de vida e oportunidades de mobilidade social no Brasil', in Carlos Hasenbalg and Nelson do Valle Silva (eds.) *Origens e destinos* (Rio de Janeiro, 2004).

We must emphasise, however, the persistence of significant differences that were both inter- and intraregional. Thus, although the illiteracy rate of children in the Northeast had declined dramatically from 29.1 percent in 1992, it was still 8.7 percent in 2002, compared with only 1 percent in the South. The contrast within the Northern region could be equally dramatic. While 7.3 percent of children in Ceará in 2002 were illiterate, the equivalent figure in the neighbouring state of Piauí was 15.5 percent. But then the child illiteracy rate in 1992 in Piauí has been a shocking 40.9 percent!

The expansion of the education system in Brazil may be gauged from the rapid growth of enrollments at the different levels of education in recent decades. In primary education enrollments increased from almost 16 million in 1970 to 35.5 million in 1998. In the last years of the century Brazil had almost achieved universal access to primary education. The net rate of enrolment among seven- to fourteen-year-olds (theoretically the age of compulsory schooling) rose from 67 percent in 1970 to 80 percent in 1980, 86 percent in 1991, and reached 95 percent in 1998. As a result of these improved rates of passing through school, the average years of schooling among Brazilians aged over twenty-five years increased steadily from 4.9 in 1992 to 6.1 in 2002.

However, in spite of improved rates of passing through school, there was still a high incidence of grade repetition. In 1988 the proportion of fifteen- to eighteen-year-olds (those immediately above compulsory school age) who had access to school and had completed the fourth grade of primary education was 86 percent, while only 39 percent had finished the eighth and final grade. So in spite of there being universal access to school, at the end of the twentieth century Brazil was still far from enjoying complete universal primary education.

And there remained significant inequalities between groups of children identified by colour, gender and per capita family income. In 1998 white children spent 2.1 more years in primary school than nonwhites (black and mixed-race ('mulatto') people taken together). But since the average length of time nonwhites spent in school compared with whites has risen from 58.9 percent in 1976 to 69.0 percent in 1998, we may conclude that during this period the educational patterns of whites and nonwhites had converged slightly. Again, in 1976, females were still spending slightly less time in primary school than males: 3.7 and 3.9 years, respectively. In 1986 the two groups were spending almost the same amount of time. And by 1998 girls had overtaken boys, spending on average 3.6 percent more time

in school. As for income inequalities, in 1976 the difference in the average amount of time spent in basic education between the upper (richest) and lower (poorest) quintiles by per capita family income was immense: 6.8 and 1.4 years, respectively. For the next twenty-two years, educational growth occurs in inverse proportion to income level. Thus, the average for the lower quintile grew 130 percent, for the second 93 percent, for the third 67 percent, for the fourth 52 percent and for the fifth and highest 39 percent. As a result, the ratio between upper and lower income quintiles fell from 4.6 to 2.9 times, showing a significant convergence between these income levels, even though there was still a high level of inequality.

The situation in secondary and higher education was more complex. As at primary level, expansion at these two levels was quite modest during the 1980s: enrollments in secondary schools increased by 24 percent during the decade; in higher education the rate was only 8.5 percent. However, in the 1990s, growth at these levels was spectacular: 134 percent at secondary level and 68 percent in higher education. In 1999 2.4 million pupils completing secondary school, more than 80 percent of them were in the public system. It should also be noted that this expansion, notably in higher education, accelerated in the first years of the twenty-first century: between 1994 and 2001, the annual rate of growth in enrollments at this level was 12.8 percent, while between 2000 and 2001 alone it reached 19.1 percent reaching a total of 3,479,000 enrolled students in 2002. The numbers of those studying in private institutions grew 150 percent between 1994 and 2002, in federal institutions 46 percent, in state institutions 79 percent, and in those run by municipalities 10 percent.

The educational advances in Brazil in the final decades of the twentieth century are undeniable. Explanations tend to stress the role of the state, through its allocation of more funds to education and through specific educational policies. Some economic studies of educational advances in recent decades also look at the demand for education on the part of family units, especially the poorest families, where the key variables are family income and the opportunity cost of keeping children in school.

Despite the undoubted importance of these factors, attention should also be given to the effects of rapid urbanisation and demographic change resulting from the decline in fertility rates on the size and structure of families and the numbers of those attending school. At the end of the twentieth century, as we have seen, Brazil was passing through a demographically favourable period (which some call 'the golden age of demographic transition') when the benefits of the stabilisation and possible shrinkage of the

cohorts of younger people had not yet been nullified by the rapid growth of the older population. Thus, the numbers of those aged seven to fourteen years grew from little over 23 million in 1980 to a peak of around 27.5 million in the 1993–1994 period, but then declined to a little over 26 million in 2000. In other words, the population within the range of compulsory education fell by about 1.5 million in the final six years of the last century. The reason for this is that the seven- to fourteen-year-old-cohort (which was 19.2 percent of the total population in 1980) was only 15.7 percent of the total population in 2000. Whereas in 1980 there was one child of compulsory school age for every three adults between fifteen to sixty-four years of age, in 2000 there was one for every four adults. Clearly this was a favourable factor in the overall demand for basic education and helped create better conditions in which Brazilian society was able to cover the costs of this part of the education system.

Nevertheless, the effects of the educational policies adopted during this period, especially in the final decade of the century, cannot be minimised. After the ‘educational optimism’ of the ABE in the 1920s and the Manifesto of the Pioneers of New Education in 1932, it was almost seventy years before educational policy returned to centre stage and for primary education in particular to become once again a priority public policy.⁴⁸ The 1988 Constitution had defined basic education as a fundamental right of every citizen, and the federal government was obliged to contribute 18 percent of its revenues to education. The educational policies adopted in Brazil in the 1990s took as their main premise that universal access to basic education had more or less been achieved and quality and equality were now the main aims. Under the new Guidelines and Foundations of National Education (December 1996) there was an emphasis on decentralising educational management with the aim of promoting and strengthening local autonomy. There was also a clear concern to improve national systems for evaluating the results of education at all levels. The *Sistema de Avaliação do Ensino Básico* (SAEB) [Basic Education Evaluation System]) was an example of an initiative in this area (and in the last years of the decade it in fact indicated a small but consistent deterioration in the performance of Brazilian pupils in basic subjects). The federal government would no longer directly execute educational policy (especially in basic education) but would take on the role of coordinating and monitoring the system.

⁴⁸ See Simon Schwartzman, ‘The challenges of education in Brazil’, Working Paper no. 8, Centre for Brazilian Studies, Oxford University (2003).

One specific initiative for improving the system of basic education deserves mention: the setting up, under constitutional amendment No. 14 (December 1996) and its regulatory requirements, of the *Fundo de Manutenção e Desenvolvimento do Ensino Fundamental* (FUNDEF) [Fund for Primary Education Development and for Enhancing the Value of the Teaching Profession], whose aim was to allow state and municipal education authorities to use their financial resources improve basic education and especially the salaries of teachers. States and municipalities were obliged to devote at least 15 percent of their income (including that deriving from intergovernmental transfers) for a period of ten years to the maintenance and development of basic education. And no less than 60 percent of their resources distributed by FUNDEF should go towards paying the salaries of primary school teachers.

In spite of significant recent progress (and in part because of it, since rapid expansion of education is often accompanied by a relative deterioration in the quality of teaching as less privileged pupils are increasingly incorporated into the system), Brazil at the end of the twentieth century still displayed an unsatisfactory level of educational performance compared to countries with the same levels of development and per capita income. For example, in the Programme for International Student Assessment (PISA) administered by the OECD, in which fifteen-year-olds are given objective tests of proficiency in mathematics and reading, the results of Brazilian pupils were better than those of only one other South American country, Peru. Especially notable is the contrast between the Brazilian results and those of South Korea and Thailand, countries that twenty years before were at the same level of development (or worse) than Brazil. Questions concerning quality and equity remained on the Brazilian educational agenda at the end of the century.

The Racial Agenda

At the end of the 1970s, a new approach to the question of race relations began to emerge. Some experts⁴⁹ put forward what were at that time considered new ideas in the theory of sociological analysis of stratification, drew attention to the fact that it would be reasonable to think that discrimination based on 'race' would play a large role in the processes of the

⁴⁹ See, for example, the seminal text by Carlos Alfredo Hasenbalg, *Discriminação e desigualdades raciais no Brasil* (Rio de Janeiro, 1979).

labour market, such as exploitation and competition. Rather than considering prejudice and discrimination as a stubborn and irrational cultural trait inherited from the past, the argument was that racial stratification was rooted in contemporary social structure because racial discrimination could be a rational reaction among groups competing for scarce social and economic resources. In other words, these writers sought to show that race/colour is a relevant, even if not a determining, criterion in defining the excluding strategies that mould the system of inequalities characteristic of modern Brazilian society. It should be remembered that this was a period of very rapid changes in that society, with high levels of social mobility which allowed the emergence of an embryonic black 'middle class'.

Following the direction of this current of thought, many empirical studies tried to make a quantitative estimate of the probable extent of racial discrimination in the Brazilian labour market. These studies showed some empirically significant results. First, black and 'mixed-blood' ('mulatto') individuals seemed to present very similar socioeconomic profiles. This appeared to be especially true both in income patterns and in those characteristics that indicated 'human capital', in other words, work experience and education, but similar results were obtained for other relevant variables. Thus, when statistical analysis required some form of grouping of colour categories, the decision to consider black and mulatto individuals as part of a single, quite homogeneous nonwhite group, would not constitute a very serious violation of the statistical reality of these groups.

The second conclusion that seemed to emerge from this series of studies was the recognition of substantial differences in economic income between whites and nonwhites, even after adjusting the process of determining income according to relevant variables. In other words, a significant proportion of interracial income differences in Brazil seemed to be probably caused by discriminatory practices in the labour market. Other things being equal, whites seemed to be much more efficient in converting experience and educational investment into monetary returns, while non-whites seemed to suffer from increasing disadvantages when they tried to climb the social ladder.

Nevertheless, it is important to recall here some of the really distinctive characteristics of the race relations system in Brazil. First, there is the delicate question of racial identity. In Brazil, as has been pointed out, there are no racial categories in the strict sense of the term, as they have been substituted by the concept of 'colour'. So the process of racial identification is not done in dichotomous terms, such as white/nonwhite (the

equivalent of the American 'one drop rule'), but by placing the individual in a continuum running from white to black and which identifies several intermediate positions corresponding to various possible combinations of physical characteristics. The official census categories (white, brown [*pardo*] and black) are a rather crude approximation of this continuum, but we have to recognise that Brazilians can really be very imaginative when it comes to colour categorisations. For example, the 1976 PNAD household survey, which contained a simple, open question for respondents to self-categorise their colour ('What colour are you?'), received more than 135 different responses. In addition, colour classification in Brazil tends to be somehow indeterminate and ambiguous. Very few people speak spontaneously about the fact of being '*pardos*' (brown), but prefer the word *moreno* (originally meaning 'moorish'). In fact, as anthropological research has shown, in spite of being a word used to describe individuals who are essentially *pardos*, the word *moreno* may be applied to practically all physical types except blondes or redheads. A second peculiarity of Brazilian race relations that must be taken into account is that identification by colour has a correlation, apparently weak but nonetheless real, with an individual's social status. There is empirical evidence that individuals in more elevated social positions tend to 'whiten' their identification, while those lower down the social scale tend to 'darken' theirs, whatever their actual physical characteristics. This is what is called 'social race'. For example one analysis⁵⁰ has shown that, when compared to the classification made by the interviewer, the 'whitening' self-identifications, (i.e., indicating categories whiter than those attributed by the interviewer) tend to be systematically associated with higher educational levels and higher average income levels. On the other hand, 'darkening' responses tended to correspond to lower levels of education and income. Thus, in Brazil, it seems not only does money help to whiten, but poverty tends to darken.

Attempting to summarise, we may say that in the Brazilian context there are no sharp colour frontiers because identification by colour is, up to a point, uncertain, unstable and ambiguous although these qualities are apparently not sufficient to invalidate results concerning social inequality. On the other hand, the evidence produced by these studies also shows that there exists an intense and intimate situation of racial contact, that is, a situation of great social connectivity between groups identified by colour.

⁵⁰ Nelson do Valle Silva, 'Uma nota sobre 'raça social' no Brasil, *Estudos Afro-Asiáticos*, 26 (September 1994): 67–80.

In fact, it could even be argued that it is inappropriate to talk of colour *groups* in Brazil, since race/colour does not constitute a basis for solidarity and therefore there seems not to be (at least not yet) a firm basis for political mobilisation and action.

In spite of these difficulties of measurement in official statistics, it is possible to use them to obtain a reasonably reliable socioeconomic picture of the colour differences in the Brazilian population at the end of the twentieth century. One of the notable characteristics of the composition of the Brazilian population according to colour is found in the great differences in spatial distribution. Besides the high rate of concentration of the Asian population (the vast majority of Japanese descent and described as 'yellow' in official Brazilian documents) in the Southeast (especially in the state of São Paulo, where about three-quarters of the members of this colour group are found), the strongest contrasts seem to occur between the white and black populations on the one hand and the *pardo* (mulatto) population on the other hand. Thus, in 1997 almost half the *pardo* population was found in the Northeast region, but only 15 percent of the white population. Conversely, in the relatively wealthier areas of the Southeast and South could be found 75 percent of the white population and only 35 percent of the *pardos*. In this context it is important to note that the black population enjoyed clear geographical advantages compared to *pardos*, being most strongly concentrated in the wealthier areas: 65.6 percent of individuals categorised as black lived in the Southeast and South and only 28.5 percent in the Northeast. Because of this, the geographical profile of the black group is closer to that of whites than to *pardos*.

On the other hand, if we examine the colour composition of the large Brazilian regions, the main facts seem to be the high level of whites in the population in the South (84 percent of the total in the region) and the Southeast (65 percent of the total, the state of São Paulo being the area where the relative proportion of whites is more than three quarters of the population) and that of mulattos in the North and Northeast, where in 1997 they made up 65.9 and 65.4 percent of the totals, respectively. In terms of the black group, the most notable fact seems to be its strong presence in the population of Rio de Janeiro, where it accounts for more than 10 percent of the population of the state, almost twice the figure for their representation in the whole Brazilian population. In fact, the black population of the metropolitan region of Rio de Janeiro (because of the sheer size of this population) is greater than the numbers of this colour group in the whole of the rural area of the Northeast region and, in

contrast to what is popularly believed, more than twice that found in all three Northeastern metropolises together. At the same time it is important to note the high levels of interaction between colour groups in Brazil, which are at the same time the cause and effect of the extremely low (one might say almost nonexistent) levels of spatial segregation in Brazilian cities.⁵¹

It is interesting to note that when Brazilian are asked in surveys if they think that prejudice and discrimination exist in their society, almost 90 percent give a positive response (according to results of a Datafolha survey on that topic in 1995) and, what is more important, this response has no relation to their own colour. Also, about 60 percent of respondents even added the word 'very'. On the other hand, when asked about their actual direct experience of discrimination, only 36 percent of blacks and 16 percent of mulattos said they had felt discriminated against on account of their colour, although most of the experiences related do not appear to be strictly linked to the labour market. Thus, the general perception of discrimination roughly coincides with what is known about the socio-economic situation of colour groups although, in this case, the level of experienced discrimination seems to be significantly lower among mulattos than among blacks.

One of the most stable empirical facts concerns differences in income according to race: in 1996 the average income, both for blacks and mulattos could be estimated at about half that of whites. If the respondent's gender was introduced into the analysis, the differences were even more pronounced, with nonwhite women earning on average about 30 percent of the income of white males. If we break down these differences, we may calculate that between 13 and 20 percent of the white/nonwhite differential between men can probably be attributed to discriminatory practices in the labour market.⁵² This contrasts with the case of women who, because in Brazil they have more formal qualifications (in other words, school attendance) than men in the same colour group, this figure can reach a value of 150 percent for white women and about 50 percent for nonwhite women (both percentages are relative to white males). Furthermore, most of the

⁵¹ Using standard dissimilarity indices, Telles found a level of spatial segregation between colour groups, when controlled by socioeconomic status, of forty-three in Rio de Janeiro and forty-one in São Paulo. To put this in perspective, similar indices for American cities varied between seventy and ninety. Edward E. Telles 'Cor da pele e segregação residencial no Brasil', *Estudos Afro-Asiáticos*, 24 (1993): 5–22.

⁵² See Sergei Soares, 'O perfil da discriminação no mercado de trabalho – homens negros, mulheres brancas e mulheres negras', Rio de Janeiro, IPEA, Texto para discussão, no. 769 (2000).

income differential between white and nonwhite males can be attributed to premarket differences, mainly differences in educational attainment (about 70 percent of the total difference). Again, this situation contrasts with the case of white women, whose income differences relative to white males are entirely attributable to discrimination in the labour market. Thus it is not surprising that in the case of nonwhite women there is a mix of the two situations, but with more than 70 percent of the difference in relation to white males being attributed to discriminatory procedures in the labour market.

Similar results are obtained in other socioeconomic areas such as social mobility. The fact that most racial differences in income or occupational mobility may be attributed to premarket differences, especially differences in educational achievements, is the focal point of many of the efforts to study racial inequality in Brazil. It is a very complex topic for social research and the main reason for this complexity is probably the fact that it corresponds to the socialisation period of young people when the internalisation of prejudice – with all its associated psychological harm – plays a central role. The clear consequence of these early differences in school performance is that nonwhites are already handicapped when they enter the labour market, which ‘reveals’ rather than ‘produces’ the racial inequality that is found, through a process that may be broadly described as a self-fulfilling prophecy.

Thus, what the empirical studies on racial inequality in Brazil carried out in the last twenty years of the century seem to indicate is that a situation exists in Brazil where there is a double handicap for nonwhites: they were not only ‘less efficient’ than whites in converting their human capital into higher returns, but also whatever advantages one generation gained were not turned into advantages for the next generation. Commenting on the differences in social mobility, Hasenbalg and Silva⁵³ observe that the sociological literature that deals with colour-related socioeconomic differences in Brazil points to the existence of a process of accumulation of disadvantages. Also, it seems clear that in modern Brazil the core of the disadvantages that blacks and mulattos suffer is located in the process of acquiring education. The differences in occupational returns from investment in education are relatively small when compared to differences in educational achievement, for any social stratum related to family origin.

⁵³ Carlos Hasenbalg and Nelson do Valle Silva, ‘Race, schooling and social mobility in Brazil’, *Ciência e Cultura*, 51 5/6 (1999), p. 19.

And these differences tend to increase when the social class of origin rises. The question of education seems to be the Gordian knot of racial inequality.

These characteristics define a very distinctive system of race relations that restrict the possibilities and forms of actions and policies to combat racial inequality and racism that began to materialise from 1994 onwards, in the government of President Fernando Henrique Cardoso. In Brazil, racism develops from a basis of social practices and daily interactions but (in contrast to other multiracial societies such as the United States or South Africa) without being formally recognised in the legal system and with its existence denied in official discourse. This is what Antonio Sergio Guimarães has called 'attitudinal racism'.⁵⁴ The system is based on two basic institutionalised premises. First, there is the subjectivism of the classifying system in which colour takes the place of the idea of race; racial identity is fluid, relative and contextually determined, and based on a continuum of colour rather than on discrete categories. Second, there is the legitimacy of imbalance in the treatment of others based on the individual's social class. As Guimarães correctly reminds us,

'the social classes in Brazil, as opposed to those in the USA, are felt to be a legitimate base for inequality of treatment and opportunity. Therefore the charisma of class in Brazil dominates all others, since discriminatory attitudes and the behaviour associated with them are largely accepted as being socially legitimate. Furthermore, given the great social inequality between whites and nonwhites, it is always possible to discriminate openly against blacks, mulattos and people from the Northeast without needing to make use of explicit stigmas of race, colour or ethnicity.'⁵⁵

In Brazil, racism can always be denied and absorbed as merely a simple expression of class discrimination.

It is within this nebulous context that the first drafts of antiracist actions in Brazil appeared in the last decade of the twentieth century. During this period, the question of the viability of affirmative action and the promotion of ethnic-cultural diversity was the theme of a series of studies and heated debates. Various consultative structures were created to support the Afro-Brazilian culture and population. Examples of this are, at the federal government level, the Palmares Foundation, and at the state level the now defunct Special Secretariat for the Defence and Furtherance of Black

⁵⁴ Antonio Sérgio Guimarães, *Preconceito e discriminação – Queixas de ofensas e tratamento desigual dos negros no Brasil* (Salvador, 1998).

⁵⁵ Guimarães, op. cit. pp. 108–9.

People (*Secretaria Extraordinária de Defesa e Promoção das Populações Negras*) in the state of Rio de Janeiro and the Council for the Defence of the Black Community (*Conselho de Defesa da Comunidade Negra*) in the state of Bahia. These institutions played a modest role to begin with and their function was more symbolic than effective. Nevertheless, they established the basis for the more important state-level actions that would come with the next government.

In addition, since the 1980s, various nongovernment organisations had already been more active in combating racism. Possibly due to the fact that these organisations belonged to the private sector and their actions were not confined to the problems inherent in formulating public policies, they seem to be more flexible and dynamic than official government agencies. The two main lines of action of these NGOs were legal aid – an action aimed at providing legal guidance and help in complaints concerning discriminatory behaviour – and educational support – programmes to finance the education of Afro-Brazilians and thus promote their social mobility and create ‘models’ for the black population. The best-known NGO in the area of legal aid, financed by international agencies, was SOS Racismo, which was an umbrella for other NGOs dealing with actions seeking compensation for racial discrimination. Legal actions against prejudice and discriminatory behaviour were, nevertheless, more effective in terms of making the problem public and provoking discussion – which, in itself, was a novelty and a great advance in the fight against racism in Brazil – rather than bringing about any effective enforcement of the law. The possibility of turning racial discrimination into class discrimination at any time – the latter being in some way legitimised in Brazilian moral codes – makes it extremely difficult to convict anyone for the crime of racism.

The first programme to be launched in the area of educational support was, apparently, the Steve Biko Cooperative Preparation Course for University Entrance Examinations (*Pré-Vestibular da Cooperativa Steve Biko*), which was set up in the 1990s in Salvador, in the state of Bahia, by a group of black university students organised to train and prepares young black people with very little money (total family income less than two minimum wages) for university entrance examinations. Inspired by this model, the Preparation Course for University Entrance for Blacks and Low-income Candidates (*Pré-Vestibular para Negros e Carentes*) was created in Rio de Janeiro in the mid-1990s. As the name suggests, it was not restricted to the black population. This system was imitated in other states such as São Paulo and Minas Gerais. In April 1999 the federal government announced

a programme for improving educational standards by increasing the number of black students in universities. The programme was linked to the Ministry of Justice's Secretariat for Human Rights and based on the diagnosis that the 'low level of success of black students in university entrance examinations is one of the causes of racial inequality in Brazil', it endeavoured to provide support material for preparatory courses frequented by poor students, giving priority to blacks. The central dilemma concerning antiracist public policies was expressed very clearly by the system of quotas for nonwhite students, which was at that time dismissed because 'quotas would help to maintain prejudice by creating two different classes of students . . . what we need are affirmative responses to equalise situations of culture and knowledge between young people, in both black and non-black communities'.⁵⁶

However, in spite of these programmes, both official and private, being nominally aimed at the Afro-Brazilian population, there was in fact a certain loose generality in their implementation so that they did not exclude people from other races or ethnic groups. This occurred because, according to the understanding of the time, affirmative action policies demanded (in order to make budgetary decisions, for example) clear ideas to define who could benefit from them and a clearly quantifiable target audience, all of which presupposed the existence of politically defined and active ethnic groups. In the case of Brazil, however, as we have seen, one of the basic characteristics is precisely the high degree of fluidity and subjectivism in racial identity, which is diluted into a continuum of colour. Therefore, this particular trait makes it difficult to mobilise efforts around a common identity that might produce organised political action.

In spite of all these complicating factors, in a significant change in official thinking, the federal government announced in May 2002 that it was sending to Congress a project proposing the adoption of a system of quotas of 20 percent for blacks in all levels of the civil service. At the same time, the same project envisaged a similar quota for admission to all universities, both public and private. It also proposed, as a federal policy, preferential treatment for companies adopting internal affirmative actions favouring nonwhites and disabled persons. However, for reasons outlined earlier, we may suspect that the implementation of proposals of this type will meet stiff resistance mainly from the middle classes, which are predominantly white, and feel threatened by policies that affect their main

⁵⁶ *Jornal do Brasil*, 29 April 1999.

channel for social mobility – higher education. In spite of the continuity of and even increase in affirmative action policies, the political risks involved in the race question are definitely high.

The Persistence of Inequalities in Income and Poverty

As we have seen, Brazil has the highest level of inequality in income distribution among all the countries in Latin America, a region of the world which, in turn, also has the highest levels of inequality compared to other regions. See Table 8.4. One of the characteristics which has attracted the attention of specialists during the last two decades of the twentieth century is the remarkable stability in the Gini Index. Apart from a slight increase from 1987 to 1989 it remained virtually static at 0.60. See Figure 8.3. There are, however, reasons to believe that the Gini Index to a certain extent underestimates the changes in income inequalities during this period. For example, the 20 percent of highest-earners had a share of total income 24 times greater than that the 20 percent of lowest-earners in 1981; in 1989 it was 34.4 times greater, an increase of 43 percent.⁵⁷ For the same period the Gini Index shows an increase of only 8.5 percent. After 1989 the two indicators move in the same direction but while the 20+/20-figure falls by about 21 percent (to a multiple of 27.2 in 1999), the Gini falls only 6 percent. The Theil Index – another widely used inequality index, with better statistical properties than the well known Gini – seems to give a far clearer picture of the dynamic of change in inequality of income. Theil Index rises from 0.69 in 1981 to a peak of 0.89 in 1989 (a rise of 29 percent), and then falls by 19 percent to a value of 0.72 in 1999. This seems to be more in accordance with the development of the ratios between ‘rich’ and ‘poor’ indicated above than with the picture of near-stability suggested by the Gini Index. When we examine the data on average incomes for each occupational strata (in 1999 *reais*) in the Household Surveys (PNADs) for 1981, 1990, and 1999 what is shocking is not the gross figures for the highest earners (for example, average incomes for those in the ‘liberal professions’ was equivalent to about US\$3,000 per month in 1999, a relatively modest amount by international standards), but the yawning gap between the highest and lowest earners.

⁵⁷ Ricardo Paes de Barros, Ricardo Henriques and Rosane Mendonça, ‘A estabilidade inaceitável: desigualdade e pobreza no Brasil’, in Ricardo Henriques (ed.) *Desigualdade e pobreza no Brasil* (Rio de Janeiro, 2000), p. 24



Figure 8.3 Inequality indices. Brazil: 1981–1999.

It is important to note that while there had been an increase of about 16 percent in the average (total) level of real earnings during the period 1981–1999, growth occurred only during the 1990s. In fact, between 1981 and 1990 there was actually a decline of a little over one percent, which was then compensated for by a rise of 17 percent between 1990 and 1999. In the 1980s, all occupational groups suffered a fall in real earnings, with two exceptions: proprietors/employers and self-employed businessmen. And even here the gains were modest: 1.6 percent and 1.3 percent, respectively. It certainly was a ‘lost decade’ in terms of the real earnings of the population as a whole. This particularly sombre picture for the 1980s changed significantly, however, in the following decade. There was a general growth in real earned income, with only two groups – street traders (–5.8 percent) and supervisors of manual work (–5.0 percent) experiencing a fall. Owing to the fact that some occupations at the bottom of the pyramid linked to services (especially in the traditional female niche areas, such as domestic employment and workers in social services) experienced quite substantial gains, far higher than those obtained at the top, we find a very substantial reduction of inequalities in average earnings between different occupational strata. There was at the same time a significant reduction in the income differences between genders. Between 1981 and 1990, female earnings grew

Table 8.10. *Income from Main Employment by Colour (in 1999 Reais)*

Colour of Respondent	Average Income from Main Employment	
	1990	1999
White	555.15	644.90
Black	226.40	306.34
Brown	271.73	318.45
Yellow	1,147.73	1,302.69
All groups	433.10	506.40

Source: PNADs from 1981, 1990, and 1999 – corrected according to the National Consumer Price Index (INPC).

by 9.4 percent and between 1990 and 1999 by almost 31 percent. Thus, while women enjoyed incomes equal to 54.1 percent of those earned by men in 1981, this percentage rose to 60.1 percent in 1990 and 68.8 percent in 1999.

In the case of inequalities of income among colour-defined groups, the available data are limited to the 1990s because the 1981 PNAD did not collect information on the colour of respondents. As may be seen in Table 8.10, all colour groups showed gains during the final decade of the twentieth century. However, while whites and mulattos experienced growth rates not very far from the overall average of 17 percent, the group with the highest incomes, the Asians, had the worst relative performance, with growth rates of 13.5 percent, and the average income of blacks grew by 35.3 percent, more than double the general average.

In conclusion, if we attempt to summarise the trends in income inequality among individuals in Brazil in the last twenty years of the twentieth century, we can say that the 1980s saw a significant increase in inequality, especially after 1986. The historic peak of Brazilian inequality seems to have been reached in 1989. In that year, the richest 10 percent's share of total earnings was an impressive thirty times greater than that of the poorest 40 percent. After 1989 the movement is downward, returning to twenty-three times greater, the same as at the start of this period. Obviously, in spite of the downward trend of the 1990s, these figures are still at an unacceptably high level, showing plainly the extent of inequality among Brazilians and clearly quantifying the extent to which Brazil is among the most unequal societies in the world. For example, the earnings of a person in the liberal professions were almost fifteen times higher than wages paid to a female domestic servant; a woman's earnings were still, on average, equivalent to less than 70 percent of those enjoyed by male workers; and the earnings

of blacks and ‘mulattos’ were still less than half those of whites. These figures illustrate how institutionalised and enduring income disparities are in Brazil.

As for ‘poverty’ properly speaking during this period, the picture is more ambiguous than that concerning incomes and living conditions. One of the difficulties we have arises from the fact that the various organisations and authorities working in this area have used different measures of the poverty line and have arrived at rather different results. Nevertheless, the chronological series elaborated by Barros, Henriques and Mendonça⁵⁸ for the 1977–1999 period provides a trustworthy guide to the Brazilian population classified as the ‘poor’ during the 1980s and 1990s. According to this study, 43.2 percent were poor in 1981, 51.1 percent in 1983. After the worst of the recession the percentage fell to a low point of 28.2 percent in 1986, the year of the *Plano Cruzado*, but had risen to 43.8 percent by 1990. There was a significant fall in the incidence of poverty between 1993 and 1995, from 41.7 to 33.9 percent, which is attributable to the re-distributive effects of the *Plano Real*. But from 1995 the proportion of the poor stabilised and was 34.1 percent in 1999, the last year covered in the series.

On the level of poverty in Brazil at the end of the twentieth century, we have PNAD data for 1999.⁵⁹ Table 8.11 shows the geographical distribution of the poor among metropolitan, urban nonmetropolitan and rural regions, and between major regions according to areas and regions of residence, as well as the incidence of poverty in each of these areas and regions.

At the end of the twentieth century there were a total of 53 million poor people, one-third of the country’s total population. The metropolitan regions, with almost 30 percent of the total population, contained 21.5 percent of the poor; in absolute terms 11.4 million people. As a result of the ‘urbanisation of poverty’, which had increased during the 1980s, urban nonmetropolitan areas contained the highest numbers of poor people in 1999, 44 percent of the total. Notwithstanding the greater visibility of metropolitan poverty, this means that the largest number of poor people in the country were scattered across the vast urban network made up of small- and medium-sized towns. In spite of the reduction in the relative share of the rural population, which was only 20.4 percent of the total population

⁵⁸ Paes de Barros, Henriques, and Mendonça, op.cit.

⁵⁹ Using *per capita* domestic income as a criterion to identify poor and non-poor persons and households, and also using the regionalised poverty line formulated by the Instituto de Pesquisa Econômica Aplicada (IPEA), of the Ministry of Planning consisting of twenty-four geographical strata.

Table 8.II. *Distribution of the Poor, Brazil, 1999 (%)*

Area of Residence	Distribution	Incidence
Metropolitan	21.5	23.9
Urban Nonmetropolitan	44.2	29.6
Rural	34.4	56.2
Region and Area		
North	6.6	44.1
Urban Northeast	27.5	50.0
Rural Northeast	23.5	74.0
Urban Centrewest	3.6	20.7
Rural Centrewest	1.4	35.9
Urban Southeast	20.8	17.9
Rural Southeast	5.2	35.0
Urban South	7.6	21.1
Rural South	3.8	38.2
Total (%)	100.0	33.3
Total (in thousands))	53.119	—

Source: PNAD (1999). Special Tables.

in 1999, a significant proportion of the poor, a little over a third, were still found in the countryside. The incidence or proportion of the poor increases as we move from metropolitan to nonmetropolitan urban areas, and from these to the countryside, rising from a little over one-fifth in the first to over one-half in the latter. The peripheries of metropolitan areas, which are poorer than their centres, are the major exception to this tendency.

As for distribution by regions (and only the urban areas were covered by the PNAD), in 1999 the North, with 5 percent of the total population, had 6.6 percent of the nation's poor. The proportion of the poor in this region (44 percent) was relatively high, exceeded only by that of the Northeast. As is well known, and in keeping with what had been found in previous decades, the highest figures in the two dimensions measured were in the Northeast. This region, which contained 29 percent of the country's population, had 51 percent of its poor. We should note the fact that in 1999 the region's urban poverty overtook rural poverty in absolute numbers. In terms of incidence, half of the urban population in the Northeast were poor, with this proportion rising to three out of every four of those living in the countryside. The Centre-West contained only five percent of the country's poor, most of them in the region's towns. The incidence of poverty – 21 percent in towns and 36 percent in the countryside – was close to figures for the Southeast and South and far lower than those for the North and

Northeast. The Southeast, the most densely populated region in the country, containing more than two-fifths of Brazil's population, had the second largest concentration of poor people after the Northeast, 26 percent of the total. Because of the high level of urbanisation in this region, most of its poor people were gathered in its urban areas. Of a total of 11 million urban poor in this region, 6.1 million lived in the three metropolitan regions of the Southeast: São Paulo, Rio de Janeiro and Belo Horizonte. As this is the most developed region of the country, the incidence of urban poverty (17.9 percent) was the lowest in the country; in the countryside this proportion rose to 35 percent. Finally, the South, with 15.3 percent of the population, contained 11.4 percent of the poor, most of whom lived in its urban areas. The incidence of poverty – 21 percent in urban and 38 percent in rural areas – was slightly higher than that of the Centre-West and Southeast.

Thus, at the end of the century, poverty in Brazil still had a strong regional slant, with a high concentration of the poor – half of them – in the Northeast. In contrast to the situation in the 1970s and the 1980s however, when the numbers of the poor in the countryside were still greater than in urban areas, two-thirds of the poor were living in Brazilian towns and cities. It is also important to note that the incidence of poverty in urban areas tended to diminish according to the size of the town or city.

CONCLUSION

Brazil entered the twenty-first century facing an agenda of problems rooted both in its distant and more recent past. Most notably, the country remained one of the most unequal in the world in terms of income distribution and still contained an unacceptably high level of poverty in its towns and cities. Of the two, the question of inequality of income is that which has proved to be most intractable. Starting from a high level, the legacy of a tradition of slavery, the modernisation of Brazilian society during the second half of the twentieth century consistently increased economic inequality which peaked at the end of the 1980s, and only started to fall slightly after the adoption of the *Plano Real* in 1994. In general terms, the picture is one of an extraordinarily resilient inequality that resisted all the cyclical patterns that have characterised the Brazilian economy during the last forty years.

The factors underlying inequality in Brazil are many and intricately linked, often representing the 'negative' results of intrinsically positive processes. For example, the large-scale entry of women into the labour

market, with the simultaneous maintenance of still significant levels of wage discrimination against them, seems to have contributed to increased variation in earnings levels in the labour market as a whole. Similarly, the large-scale inclusion of rural workers, the great majority formerly working on family plots in small-scale domestic agricultural production and with practically no income (and therefore outside the accounting of official statistics on inequality), meant that they entered the money-based urban economy where they began to be included in statistics. As this recruitment naturally occurred in the lower levels of the urban income structure, the statistical result tended to have the effect of 'artificially' increasing the indices of inequality.

Also important in explaining the extreme inequality that is characteristic of Brazil is the extremely rapid rate of urbanisation associated with its modernisation. In 1940 about 70 percent of the population lived in rural areas, at the end of the century less than 20 percent. By this time, the level of urbanisation in the most developed regions of Brazil was approaching those in the world's great industrial economies: 93 percent in the state of São Paulo and the Federal District (Brasília) and more than 95 percent in the state of Rio de Janeiro. The elimination of jobs in rural areas was accompanied by the disappearance of small, traditional rural properties. These were replaced by larger agri-business properties (which spread across the Southeast and Centre-West regions, and today have reached the Amazon frontier in the West) and, in some regions more to the south, by family-based capitalist agriculture based on new technology and often cooperative in structure. On an individual basis, this movement towards urban areas was a response to the new attractions of the 'bright lights' of the cities: better educational opportunities for children, better standards of living for the family, and better access to some kind of social security for the elderly. In other words: the search for upward social mobility. At the same time, until the last decade of the century economic growth in Brazil was based on the industrial and geographic concentration of modern-sector firms, which created marked differentials in wages and in the level of social security available between the various regions and different sectors of the economy. Although this privileged position had been partly threatened by the economic crisis in the 1980s and the subsequent opening up of the economy in the following decade (the most oligopolised sectors and the regions where these industries were mainly concentrated, such as the state of São Paulo, were the areas that naturally suffered most), the recovery of the economy tended to restore these inequalities.

Another factor underlying the remarkable resilience of inequalities in Brazil was the complex and in a certain sense precociously generous system of social security which, as we have seen, began to take shape in the country from the 1920s onwards, much influenced by the Italian Fascist social legislation of that time. Greatly strengthened during periods of authoritarian government such as the Estado Novo and the military dictatorship established in 1964, the Brazilian system of social security and public benefits created by successive cycles of legislation, covers a wide range of measures, from the provision of housing and medical care to matters concerning job security and retirement. Nevertheless, access to this system was almost always restricted to formally employed workers in urban areas, which excluded the vast majority of the Brazilian people. It was only in 1988 that the Constitution changed this situation, decreeing universal access to medical care and extending certain rights, such as retirement pensions, to rural workers.

As well as certain features peculiar to itself (e.g., Brazil is one of the few countries in the world where the criterion for eligibility for retirement is length of service rather than the worker's age, with the length of service required being less for women and for some professions, such as teaching), the Brazilian social security system was notable for the coexistence of great inequalities. Access not only depended on the worker belonging to a formal economic unit, but some occupational categories enjoy even today certain privileges vis-à-vis other workers. For example, civil servants and military staff enjoy job security and retire with full-salary pensions. Equally, access to medical care and the level of that provision still tend to privilege workers in urban areas, just as the provision of free higher education tends to privilege the urban middle classes. These indirect inequalities reinforce direct inequalities in incomes.

Another important element reinforcing social inequality in Brazil is the extremely unequal education system. This is a problem which, in fact, is not only typical of Brazil, but which exists in a large number of other countries, including some of the most developed, especially in an international competitive context where information and knowledge in general, and technical and scientific knowledge in particular, are increasingly becoming the central factor in overall economic growth and individual social success. However, since education is an eminently 'positional' resource (the best occupational positions tending to go to those best positioned in the educational 'queue'), the long sought-for expansion of the education system becomes an elusive target for public policies. Young people are better

educated than their parents, only to find that they end up in the same place in the queue for jobs that their parents occupied. Also, not only do educational inequalities tend to reproduce themselves from one generation to another by means of an intricate system of social causality, but even making education universally available does not seem to be enough; the quality of education becomes increasingly important and tends to play an increasingly relevant part in generating inequalities in education. The fact is that, in spite of significant advances in the area of education, especially in the final decade of the century, the educational performance of young Brazilians (as evidenced in international proficiency test, such as PISA) is still particularly weak and therefore the question of the quality of education (especially basic education) has to be considered an absolute priority on the public agenda. This is, of course, a process that takes generations to complete. In Brazil, however, it seems to be much slower than it needs to be when compared to what is happening in other countries at the same stage of development.

In terms of absolute poverty, the record has been a little more satisfactory than in the case of inequality. Significant progress occurred at certain points, especially in the 1970s, when the proportion of poor people fell by about half. But when the period of high economic growth rates and high levels of employment came to an end in the early 1980s, the poverty that remained was difficult to alleviate. At the start of the new century the poverty in Brazil was still at an unacceptably high level. Notwithstanding, it is important to distinguish between the poverty that remains in rural areas, whose populations are declining, from that which is concentrated on the peripheries of large and medium-sized urban areas, where the population is expanding.⁶⁰ In spite of poverty in Brazil having always been associated with rural life, by the end of the century, as we have seen, about two-thirds of the poor were now living in towns and cities. These are two quite different sides of the problem and require correspondingly different solutions.

In the case of rural poverty, it is important to remember that almost 70 percent of it is to be found in the Northeast and that in the Northeast rural poverty affects almost 75 percent of the population. This last figure for the incidence of poverty is at least twice that in Brazil's other rural regions.

⁶⁰ See Simon Schwartzman, Brazil: the social agenda, *Daedalus* (Spring 2000): 29–56; Portuguese translation in Leslie Bethell (ed.), *Brasil: fardo do passado, promessa do futuro. Dez ensaios sobre política e sociedade brasileira* (Rio de Janeiro, 2002), especially the section on 'the poverty agenda'.

Rural poverty, especially in the Northeast, represents a situation typical of traditional societies. In the case of Brazil it is a historical remnant both of slave-based agricultural economies once consisting of large-scale productive units geared to export but which later failed because of exhausted soil and lack of markets for their products, and also the occupation of semiarid regions devoted to cattle-rearing, a way of life made uncertain by unreliable rainfall. In both cases, as almost the whole population was engaged in the limited agricultural production that was possible, the question of unemployment in the strict sense of the term does not apply here. The great majority of the people work on family-owned holdings, which are small and exhausted plots of land hardly capable of providing even a precarious level of subsistence for a family, scattered over a vast and inhospitable geographical area. Taken as a whole, they comprise a population with a very low level of formal education, most of the older generation being quite simply illiterate, and without access to the most basic public services such as sanitation, electricity or medical aid. These problems are made even worse by the persistence of quite a high level of female fertility. Added to this is a predatory local oligarchy that absorbs all the funds spent by state and federal governments and various international organisations, with little or nothing trickling down to the poorest people.⁶¹

The question of urban poverty is very different in nature. Although in the Northeast, for example, half the urban population lives in poverty, the incidence of poverty in towns and cities in other regions is significantly lower, about 20 percent of their inhabitants. Even if they live in *favelas* or in inadequate accommodation on the outskirts of towns and cities, these poor people have much better access (in fact, almost universal access) to public services, such as sanitation, electricity, medical aid and free schools for their children. Also in contrast to the rural poor, urban families are smaller as a result of more controlled rates of reproduction. Although the educational level of the adult population is still low and illiteracy still common, the

⁶¹ In a context in which modern agricultural production is increasingly capital intensive, more technical, more efficient and, above all, requiring less manpower, it is questionable whether the land reform advocated by the Catholic Church (by means of one of its political arms, the Pastoral da Terra) and various social organisations (such as, for example, the Movement of the Landless – *Movimento dos Trabalhadores Sem-Terra* or MST), calling for the division of large nonproductive properties, the so-called *latifúndios*, into small family units, would be able to make a significant impact on a problem of this kind and this magnitude. Not only do nonproductive *latifúndios* seem to have almost disappeared from the Brazilian agricultural scene, but also the people for whom it is intended do not for the most part live in those areas where modern family-based agriculture seems to be capable of being most productive and economically viable.

incidence of these factors is far lower than in the rural Northeast. Most of the employed population work in the sectors of commerce and services, typically in informal and badly paid jobs. Open unemployment is relatively high, especially among the young. In this sense the situation in Brazil is not very different from that in many modern urban areas throughout the world.

During the 1990s the challenge of poverty reduction rose on the agenda of the Brazilian state, giving rise to a certain optimism and the hope that the extremely high statistics concerning poverty in the country would begin to improve. The most important way of attacking the problem, especially in the rural Northeast, was to establish support programmes offering families payment in cash on condition that they kept their children in school and took them for regular medical examinations. The idea behind these schemes for conditional cash transfers – social programmes apparently devised in Brazil and applied first by the municipal council of Campinas in the state of São Paulo, but whose first large-scale use had been in Mexico (*Progresas*, later known as *Oportunidades*) – is to make direct contact with poor families (as opposed to what happens with public benefits or with social security which, as we have seen, provide disproportional benefits to families that are already relatively privileged and focuses on the older population). The money is paid directly to mothers, who are better managers of domestic resources than men (and giving it to the mothers also gives the mothers more power within the family) every two months, in amounts large enough to make a difference but low enough not to distort the labour market by reducing the incentive to work. One important detail is that the administrative costs of programme of this type are surprisingly low.

Moreover, they confront, perhaps for the first time, the plague of *clientelismo*. As we know, traditional schemes for benefit transfer were constructed in such a way that distribution of favours was in the hands of local oligarchies, which demanded political loyalty in return. In contrast to those schemes, the new programmes distribute resources directly to the target population according to criteria of needs. In the Brazilian context, even though these programmes indirectly help to strengthen the popularity of the federal government in power at the time, they represent an important step in building a more democratic and more just society.

Obviously, programmes of this kind are not a 'miracle cure', or a substitute for economic growth. And they require the existence of an active and efficient State. The task of defining the target population (families with children of mandatory schooling ages) and making a precise identification

of the beneficiaries, avoiding fraud and excessive political interference, is not an easy task. It involves, among other things, the efficacious administration of a system in which not only the various levels of government – federal, state and municipal – but also nongovernment organisations and the beneficiaries themselves, must take an active part. Equally, in order for the programme not to become simply a benefit scheme, lacking the necessary transforming power to help the beneficiaries overcome their current state of poverty, the conditional nature of the cash transfers is a vital point. In the last resort, families in the scheme who do not follow the conditions for receiving it must lose their benefits. And administering a system for checking whether families are meeting the conditions (e.g., the school system, despite its well-known administrative weaknesses, must report accurately on the school attendance of pupils in the scheme) is another Herculean task.

In the short term, cash-transfer schemes may improve the situation of poor families but will not eliminate poverty. Job creation, as we have argued, is essential if modern urban poverty is to be confronted. And successful poverty reduction depends to a large extent on the reasonably efficient working of state institutions, especially those linked to supplying social services. Even small rural communities that are isolated and dispersed throughout Brazil's vast territory should have access to services, such as medical care and schools. And it is not enough to oblige parents to keep their children in school if the education there is weak or nonexistent. Here we return to the crucial question of the very poor quality of basic education in Brazil. Efforts to improve the quality of health and education (e.g., FUNDEF in education) should be understood as being an integral and essential part of a large package of policies aimed at combating poverty. In the final analysis, if these new initiatives are to have any measure of success, even at a modest level, political will is required not only to break the intergenerational cycle of poverty reproduction but also to decrease the persistent and shameful level of social inequality that persists in Brazil.

BIBLIOGRAPHICAL ESSAYS

LIST OF ABBREVIATIONS

<i>DHBB</i>	<i>Dicionário histórico-biográfico brasileiro pós-1930</i> (2nd revised edition, 5 vols., Centro de Pesquisa e Documentação de História Contemporânea do Brasil (CPDOC), Fundação Getulio Vargas (FGV), Rio de Janeiro, 2001).
<i>HAHR</i>	<i>Hispanic American Historical Review</i>
<i>HGCB</i>	<i>História Geral de Civilização Brasileira</i> Tomo III: <i>O Brasil republicano</i> , vol. 3. <i>Sociedade e política (1930–64)</i> , vol. 4. <i>Economia e cultura (1930–64)</i> (São Paulo, 1981, 1984) edited by Boris Fausto.
<i>JLAS</i>	<i>Journal of Latin American Studies</i>
<i>LARR</i>	<i>Latin American Research Review</i>
<i>L-BR</i>	<i>Luso-Brazilian Review</i>
<i>PPE</i>	<i>Pesquisa e Planejamento Econômico</i>
<i>RBE</i>	<i>Revista Brasileira de Economia</i>

I. POLITICS, 1930–1945

Alzira Alves de Abreu, Israel Beloch, et al. (eds.), *Dicionário histórico-biográfico brasileiro pós-1930* (DHBB) published by the Centro de Pesquisa e Documentação de História Contemporânea do Brasil (CPDOC) of the Fundação Getulio Vargas (FGV) in Rio de Janeiro (4 vols., 1984; 2nd edition, revised and expanded, 5 vols., 2001) is an indispensable work of reference. It is the most ambitious and substantial of a large number of important contributions from CPDOC, the creation of which in 1973 transformed the study of contemporary Brazilian history. For the period from the Revolution of 1930 to the *golpe* of 1964, the *História geral da civilização brasileira* (HGCB), tomo III: *O Brasil republicano*, vol. 3. *Sociedade e política (1930–64)*, vol. 4. *Economia e cultura (1930–64)* (São Paulo, 1981, 1984) edited by Boris Fausto is an outstanding collaborative history.

Boris Fausto, *A revolução de 1930: historiografia e história* (São Paulo, 1970; 16th edition, revised and expanded, 1997) remains the best guide to the 1930 revolution which ended the First Republic (1889–1930) and brought Getúlio Vargas to power for the first time. Virgílio A. de Mello Franco, *Outubro 1930* (Rio de Janeiro, 1931) and Alexandre J. Barbosa Lima Sobrinho, *A verdade sobre a revolução de outubro de 1930* (1933; 2nd edition, 1975) are classic contemporary accounts. Two volumes from CPDOC-FGV that marked the fiftieth

anniversary of the Revolution are indispensable: *A Revolução de 30: seminário internacional* (Brasília, 1982) (see, in particular, the essays by Luciano Martins, 'A Revolução de 1930 e seu significado político' and Aspásia Camargo, 'A Revolução das elites: conflitos regionais e centralização política') and *A Revolução de 30: textos e documentos* (2 vols., Brasília, 1982). See also CPDOC, *A Revolução de 1930* (Rio de Janeiro, 1980), a collection of photographs. Lúcia Lippi Oliveira (ed.), *Elite intelectual e debate político nos anos 30: uma bibliografia comentada da revolução de 30* (Rio de Janeiro, 1980) explores political and social ideas in the books published immediately before and after the Revolution. Still worthy of mention is Helio Silva, *1930: A revolução traída* (Rio de Janeiro, 1966), the third in a series of fifteen volumes under the title, *O ciclo de Vargas*.

On the *gaúcho* background and origins of the Revolution, see Joseph L. Love, *Rio Grande do Sul and Brazilian regionalism, 1882–1930* (Palo Alto, CA, 1971), chapter 10; Joan L. Bak, 'Cartels, cooperatives and corporatism: Getúlio Vargas in Rio Grande do Sul on the eve of Brazil's 1930 Revolution', *HAHR*, 63/2 (1983); Héglio Trindade (ed.), *Revolução de 30: partidos e imprensa partidária no Rio Grande do Sul (1928–37)* (Porto Alegre, 1980) and *Processo revolucionário de 1930* (Porto Alegre, 1981); Pedro Cezar Dutra Fonseca, *Vargas: o capitalismo em construção* (São Paulo, 1987), chapters 2 and 3; and Luiz Aranha Corrêa do Lago, *Oswaldo Aranha, o Rio Grande e a Revolução de 1930. Um político gaúcho na República Velha* (Rio de Janeiro, 1995). On the role of Minas Gerais, see John Wirth, *Minas Gerais in the Brazilian federation, 1889–1937* (Palo Alto, CA, 1977); on Pernambuco, Robert M. Levine, *Pernambuco in the Brazilian federation, 1889–1937* (Palo Alto, CA, 1978); on Bahia, Eul-Soo Pang, *Bahia in the First Republic: coronelismo and oligarchies, 1889–1934* (Gainesville, FL, 1979) and José Calasans Brandão da Silva, *A revolução de 1930 na Bahia* (Salvador, 1980); on Paraíba, Ademar Vidal, *João Pessoa e a Revolução de 30* (Rio de Janeiro, 1978). On São Paulo, and especially the Partido Democrático, and the Revolution, see the classic work by Paulo Nogueira Filho, *Idéias e lutas de um burguês progressista. O Partido Democrático e a Revolução de 1930* (2 vols., São Paulo, 1958); Maria Lígia Prado, *A democracia ilustrada: o Partido Democrático em São Paulo, 1926–1934* (São Paulo, 1986); Joseph L. Love, *São Paulo in the Brazilian federation, 1889–1937* (Palo Alto, CA, 1980); and Mauricio A. Font, *Coffee, contention and change in the making of modern Brazil* (Cambridge, MA, 1990).

On the role of the *tenentes* in the Revolution of 1930 and their early influence over Vargas's provisional government there is a vast literature. See, in particular, Helio Silva, *1931: Os tenentes no poder* (Rio de Janeiro, 1966); Edgard Carone, *O tenentismo* (São Paulo, 1975); Maria Cecília Spina Forjaz, *Tenentismo e política: tenentes e camadas médias urbanas na crise de Primeira República* (Rio de Janeiro, 1977), *Tenentismo e Aliança Liberal (1927–1930)* (Rio de Janeiro, 1978) and *Tenentismo e forças armadas na revolução de 1930* (Rio de Janeiro, 1989); Vavy Pacheco Borges, *Tenentismo e revolução brasileira* (São Paulo, 1992); Anita Leocadia Prestes, *Tenentismo pós 30. Continuidade ou ruptura?* (São Paulo, 1999); and especially José Augusto Drummond, *O movimento tenentista: intervenção militar e conflito hierárquico (1922–1935)* (Rio de Janeiro, 1986). And in English: John Wirth, 'Tenentismo in the Brazilian Revolution of 1930', *HAHR*, 44/2 (1964); Peter Flynn, 'The Revolutionary Legion and the Brazilian Revolution of 1930', in Raymond Carr (ed.), *Latin American Affairs: St. Antony's Papers no. 22* (Oxford, 1970); and Michael L. Conniff, 'The *tenentes* in power: a new perspective on the Brazilian Revolution of 1930', *JLAS*, 10/1 (1978). The classic contemporary account is Virgílio Santa Rosa, *O sentido do tenentismo* (1932; 3rd edition, São Paulo, 1976).

On the military, Eurico de Lima Figueiredo (ed.), *Os militares e a revolução de 30* (Rio de Janeiro, 1979) is a useful collection of essays. José Murilo de Carvalho explores the internal reorganization of the military following the Revolution (and the role of the military in politics during the Vargas regime) in an essay which is fundamental: 'Forças armadas e política, 1930–1945', in *A Revolução de 30: seminário internacional* (Brasília, 1982; reprinted in José Murilo de Carvalho, *Forças armadas e política no Brasil*, Rio de Janeiro, 2005). A shortened version in English is 'Armed forces and politics in Brazil, 1930–45', *HAHR*, 62/2 (1982). See also Edmundo Campos Coelho, *Em busca de identidade: o exército e a política na sociedade brasileira* (Rio de Janeiro, 1976). On the role of General Góes Monteiro, the key military figure in the Revolution and of the period after, see Lourival Coutinho, *O General Góes depõe* (Rio de Janeiro, 1956). An important recent work is Frank D. McCann, *Soliders of the Pátria: a history of the Brazilian army, 1898–1937* (Palo Alto, CA, 2004).

General political histories of the period 1930–1945 include Thomas E. Skidmore, *Politics in Brazil, 1930–1964: an experiment in democracy* (New York, 1967), chapter 1 and Peter Flynn, *Brazil: a political analysis* (London, 1978), chapters 4 and 5. See also, for 1930–1937, Edgard Carone: *A Segunda República (1930–1937)* (São Paulo, 1973) and *A República Nova (1930–1937)* (São Paulo, 1976). Robert M. Levine, *The Vargas regime: the critical years, 1934–38* (New York, 1970) remains important. See also *L-BR*, 31/2 (1994) Special issue: Getúlio Vargas and his legacy. Recent, general works on the Vargas era are Maria Celina D'Araújo (ed.), *As instituições brasileiras da era Vargas* (Rio de Janeiro, 1999) and Jorge Ferreira and Lucília Almeida Neves Delgado (eds.), *O Brasil republicano*, vol. 2, *O tempo do nacional-estatismo do início da década de 1930 ao apogeu do Estado Novo* (Rio de Janeiro, 2003).

Biographies of Vargas include Affonso Henriques, *Ascensão e queda de Getúlio Vargas* (3 vols., Rio de Janeiro, 1966); John W. F. Dulles, *Vargas of Brazil: a political biography* (Austin, TX, 1967); Paulo Brandi, *Vargas, da vida para a história* (Rio de Janeiro, 1983); Robert Levine, *Father of the poor? Vargas and his era* (Cambridge, 1998); and, most recently, Boris Fausto, *Getúlio Vargas* (São Paulo, 2006). See also Alzira Vargas do Amaral Peixoto, *Getúlio Vargas, meu pai* (Rio de Janeiro, 1960) and Valentina de Rocha Lima (ed.), *Getúlio: uma história oral* (Rio de Janeiro, 1986). A fundamental source is the private diary of the president from October 1930 to September 1942 now published in two volumes: Getúlio Vargas, *Diário*, I. 1930–36, II. 1937–42 (Rio de Janeiro 1995). On Oswaldo Aranha, arguably the second most important political figure of the period, besides Corrêa do Lago, *Oswaldo Aranha, o Rio Grande e a Revolução de 1930* cited earlier in this essay, see Stanley Hilton, *Oswaldo Aranha, um biografia* (Rio, 1994) and Aspásia Camargo et al., *Oswaldo Aranha: a estrela da revolução* (São Paulo, 1996).

On state politics and the relationship of state to federal politics in the period between the Revolution of 1930 and the establishment of the Estado Novo in 1937, see, in particular, Angela Maria de Castro Gomes et al., *Regionalismo, centralização política, partidos e Constituição nos anos 30* (Rio de Janeiro, 1980), which has chapters by Helena Maria Bousquet Bomeny on Minas Gerais, Maria Helena de Magalhães Castro on Rio Grande do Sul, Angela Castro Gomes and others on São Paulo and Dulci Chaves Pandolfi on the North; Carlos E. Cortés, *Gaúcho politics in Brazil: the politics of Rio Grande do Sul, 1930–1964* (Albuquerque, NM, 1974); Joan L. Bak, 'Political centralisation and the building of the interventionist state in Brazil: corporatism, regionalism and interest group politics in Rio Grande do Sul, 1930–1937', *L-BR*, 22/1 (1985); Michael L. Conniff, *Urban politics in Brazil:*

the rise of populism, 1928–1945 (Pittsburgh, PA, 1981) on the Federal District (the city of Rio de Janeiro); the concluding chapters of Joseph L. Love, *São Paulo in the Brazilian federation*, John Wirth, *Minas Gerais in the Brazilian federation*, Robert M. Levine, *Pernambuco in the Brazilian federation* and Eul-Soo Pang, *Bahia in the First Republic*, all cited earlier; and Consuelo Novais Sampaio, *Poder e representação: o legislativo na Bahia na Segunda República, 1930–37* (Salvador, 1992).

On the 1932 Constitutionalist Revolution in São Paulo and subsequent Civil War, there is no satisfactory single-volume scholarly work. See Paulo Nogueira Filho, *Idéias e lutas de um burguês progressista. A guerra cívica de 1932* (4 vols., Rio de Janeiro, 1965–81); Helio Silva, 1932: *A guerra paulista* (Rio de Janeiro, 1967); Vavy Pacheco Borges, *Getúlio Vargas e a oligarquia paulista* (São Paulo, 1979); Joseph L. Love, *São Paulo in the Brazilian federation* and Angela M. de Castro Gomes et al., 'Revolução e restauração: a experiência paulista no período da constitucionalização', in Castro Gomes et al., *Regionalismo e centralização política*, both cited earlier; Maria Helena Capelato, *A movimento de 1932: a causa política* (São Paulo, 1981); Hernani Donato, *A revolução de 32* (São Paulo, 1982); Stanley Hilton, 1932: *A Guerra civil brasileira (História da revolução constitucional de 1932)* (Rio de Janeiro, 1982); MEC/Funarte, *Revolução de 32: a fotografia e a política* (Rio de Janeiro, 1982); Jeziel de Paula, 1932: *imagens construindo a história* (Campinas, 1999); and José Alfredo Vidigal Pontes, 1932. *O Brasil se revolta. O caráter nacional de um movimento democrático* (São Paulo, 2004).

On the 1933 Constituent Assembly, the 1934 Constitution and the restoration of constitutional rule in 1934, see Helio Silva, 1934: *A constituinte* (Rio de Janeiro, 1969) and Angela Maria de Castro Gomes, 'Confronto e compromisso no processo da constitucionalização (1930–1935)', in *HGCB* III, vol. 3 and 'A Representação de classes na Constituinte de 1934', in Castro Gomes et al., *Regionalismo e centralização política*, cited earlier. June Hahner, *Emancipating the female sex: the struggle for women's rights in Brazil, 1850–1940* (Durham, NC, 1991) deals with, among other things, the securing of the suffrage for women in 1932.

On Communism in Brazil before and after 1935, see Ronald H. Chilcote, *The Brazilian Communist Party: conflict and integration, 1922–1972* (New York, 1974; Portuguese translation, 1982); Moisés Vinhas, *O Partido: uma luta por um partido de massas, 1922–1974* (São Paulo, 1982); Leôncio Martins Rodrigues, 'O PCB: Os dirigentes e a organização' in *HGCB* III, vol. 3; John W. F. Dulles, *Anarchists and communists in Brazil, 1900–35* (Austin, TX, 1973) and *Brazilian communism, 1935–1945: repression during world upheaval* (Austin, TX, 1983); and Dulce Pandolfi, *Camaradas e companheiros. História e memória do PCB* (Rio de Janeiro, 1995). On working class in politics in the early 1930s, see Ricardo Antunes, *Classe operária, sindicatos e partido no Brasil: um estudo sobre a consciência de classe da revolução de 30 até a ANL* (São Paulo, 1982). On the Aliança Nacional Libertadora (ANL), see Lélia M. G. Hernandez, *Aliança Nacional Libertadora: ideologia e ação* (Porto Alegre, 1985) and Anita Leocádia Prestes, *Luiz Carlos Prestes e a Aliança Nacional Libertadora. Os caminhos da luta antifascista no Brasil (1934–35)* (Petrópolis, 1997).

A great deal has been written on the attempted Communist putsch of November 1935. See, in particular, Helio Silva, 1935: *a revolta vermelha* (Rio de Janeiro, 1969); Dario Canali, Francisco Viana and José Nilo Tavares, *Novembro de 1935. Meio século depois* (Petrópolis, 1983); Paulo Sérgio Pinheiro, *Estratégias da ilusão: a revolução mundial e o Brasil, 1922–1935* (São Paulo, 1991); and Marly de Almeida Gomes Vianna, *Revolucionários de 35: sonho e realidade* (São Paulo, 1992). On the role of the Comintern, see Stanley Hilton, *Brazil and*

the Soviet challenge, 1917–1947 (Austin, TX, 1991); William Waack, *Camaradas. Nos arquivos de Moscou: a história secreta da revolução brasileira de 1935* (São Paulo, 1993); and Manuel Caballero, *Latin America and the Comintern, 1919–1943* (Cambridge, 1986).

On Brazilian fascism in the form of the Ação Integralista Brasileira (AIB), the leading authority is Héglio Trindade: *Integralismo (o fascismo brasileiro na década de 30)* (São Paulo, 1974); ‘Integralismo: teoria e práxis política nos anos 30’, in *HGCB III*, vol. 3; and ‘Fascism and authoritarianism in Brazil under Vargas’, in St. Ugelvik Larsen (ed.), *Fascism outside Europe* (Boulder, CO, 2001). See also Jarbas Medeiros, *Ideologia autoritária no Brasil 1930–45* (Rio de Janeiro, 1978); Ricardo Benzequen de Araújo, *Totalitarismo e revolução. O integralismo de Plínio Salgado* (Rio de Janeiro, 1988); Rosa M. Feiteiro Cavaleri, *Integralismo: ideologia e organização de um partido de massa no Brasil (1932–1937)* (Bauru, SP, 1999); João Ricardo de Castro Caldeira, *Integralismo e política regional. A ação integralista no Maranhão (1933–1937)* (São Paulo, 1999); Sandra McGee Deutsch, *Las Derechas. The extreme right in Argentina, Brazil and Chile, 1890–1939* (Palo Alto, CA, 1999); and Marcus Klein, *Our Brazil will wake! The Ação Integralista Brasileira and the failed quest for a fascist order in the 1930s* (Amsterdam, 2004).

The most valuable work on the coup of November 1937, which led to the establishment of the Estado Novo, is Aspásia Camargo et al., *O golpe silencioso: as origens da república corporativa* (Rio de Janeiro, 1989). See also Lourdes Sola, ‘O Golpe de 37 e o Estado Novo’, in Carlos Guilherme Mota (ed.), *Brasil em perspectiva* (São Paulo, 1968) and Helio Silva, *1937: todos os golpes se parecem* (Rio de Janeiro, 1970).

On the Estado Novo (1937–1945), see José Luis Werneck da Silva (ed.), *O feixe e o prisma: uma revisão do Estado Novo*, Vol. I, *O feixe: o autoritarismo como questão teórica e historiográfica* (Rio de Janeiro, 1991) and Dulce Pandolfi (ed.), *Repensando o Estado Novo* (Rio de Janeiro, 1999) are fundamental, revisionist essays. See also Edgard Carone, *O Estado Novo (1937–45)* (São Paulo 1980); Eli Diniz, ‘O Estado Novo: estrutura de poder e relações de classes’, in *HGCB III*, vol. 3; Lúcia Lippi Oliveira, Monica Pimenta Velloso and Angela Maria de Castro Gomes, *Estado Novo: ideologia e poder* (Rio de Janeiro, 1982); and Luiz Werneck Vianna, ‘O Estado Novo e a ‘ampliação’ autoritária da república’ in Maria Alice Rezende de Carvalho (ed.), *República no Catete* (Rio de Janeiro, 2001). A classic contemporary analysis is Karl Lowenstein, *Brazil under Vargas* (New York, 1942).

On the reform of the state, see Barbara Geddes, *Politician’s dilemma: building state capacity in Latin America* (Berkeley, CA, 1994), chapter 3, and Gilda Portugal Gouvea, *Burocracia e elites burocráticas no Brasil* (São Paulo, 1994). On censorship and propaganda, see Nelson Jahr Garcia, *O Estado Novo, ideologia e propaganda política: a legitimação do estado autoritário perante as classes subalternas* (São Paulo, 1982) and Silvana Goulart, *Sob a verdade oficial: ideologia, propaganda e censura no Estado Novo* (São Paulo, 1990). On violence and repression, see Reynaldo Pompeu de Campos, *Repressão judicial no Estado Novo: esquerda e direita no banco dos réus* (Rio de Janeiro, 1982); Elizabeth Cancelli, *O mundo da violência: a polícia da era Vargas* (Brasília, 1993); and R. S. Rose, *One of the forgotten things: Getúlio Vargas and Brazilian social control, 1930–1954* (Westport, CT, 2000).

On education and culture the key figure in the Estado Novo is Gustavo Capanema. See Simon Schwartzman (ed.), *Estado Novo: auto-retrato (arquivo Gustavo Capanema)* (Brasília, 1983); Simon Schwartzman, Helena Maria Bousquet Bomeny and Vanda Maria Ribeiro Costa, *Tempos de Capanema* (São Paulo, 1984); and Angela de Castro Gomes (ed.), *Capanema: o ministro e seu ministério* (Rio de Janeiro, 2000). See also Sérgio Miceli,

Intelectuais e classe dirigente no Brasil, 1920–45, (São Paulo, 1979), Angela Castro Gomes, *História e historiadores. A política cultural do Estado Novo* (Rio de Janeiro, 1996) and Daryle Williams, *Culture wars in Brazil: the first Vargas regime, 1930–45* (Durham, NC, 2001).

The relationship of the state to organized labour and legislation relating to both unions and social welfare during the Vargas period has received a great deal of scholarly attention. See, in particular, Rosa Maria Barbosa de Araújo, *O Batismo do trabalho: a experiência de Lindolfo Collor* (Rio de Janeiro, 1981); John D. French, 'The origins of corporatist state intervention in Brazilian industrial relations, 1930–34', *L-BR*, 28/2 (1991); James M. Malloy, *The Politics of social security in Brazil* (Pittsburgh, PA, 1979); Angela Maria de Castro Gomes, *Burguesia e trabalho: política e legislação social no Brasil, 1917–37* (Rio de Janeiro, 1979); Aziz Simão, *Sindicato e estado: suas relações na formação do proletariado de São Paulo* (São Paulo, 1966); Leôncio Martins Rodrigues, *Conflito industrial e sindicalismo no Brasil* (São Paulo, 1966) and 'Sindicalismo e classe operária (1930–1964)', in *HGCB*, III, vol. 3; José Albertino Rodrigues, *Sindicato e desenvolvimento no Brasil* (São Paulo, 1968); Robert Rowland, 'Classe operária e estado de compromisso', *Estudos CEBRAP*, 8 (1974); Timothy Harding, 'A political history of organized labor in Brazil' (unpublished PhD thesis, Stanford University, 1973); Luis Werneck Vianna, *Liberalismo e sindicato no Brasil* (Rio de Janeiro, 1976; 4th revised edition, 1999); Kenneth P. Erickson, *The Brazilian corporative state and working class politics* (Berkeley, 1977); Maria Hermínia Tavares de Almeida, 'Estado e classes trabalhadores no Brasil (1930–45)' (unpublished PhD thesis, University of São Paulo, 1978); Antônio Carlos Bernardo, *Tutela e autonomia sindical: Brasil, 1930–1945* (São Paulo, 1982); Boris Fausto, 'Estado, classe trabalhadora e burguesia industrial (1920–1945): Uma revisão', *Novos Estudos CEBRAP*, 20 (1988); Maria Celia Pinheiro-Machado Paoli, 'Labour, law and the state in Brazil, 1930–1950' (unpublished PhD thesis, University of London, 1988); Angela de Castro Gomes, *A invenção do trabalhismo* (São Paulo, 1988); John D. French, *The Brazilian workers' ABC: Class conflict and alliances in modern São Paulo* (Chapel Hill, NC, 1992), part I; Joel Wolfe, *Working women, working men. São Paulo and the rise of Brazil's industrial working class, 1900–1955* (Durham, NC, 1993); and Barbara Weinstein, *For social peace in Brazil. Industrialists and the remaking of the working class in São Paulo, 1920–1964* (Chapel Hill, NC, 1996).

On the church during the period 1930–1945, see José Oscar Beozzo, 'A Igreja entre a revolução de 1930, o Estado Novo e a redemocratização', in *HGCB* III, vol. 4, and Margaret Patricia Todaro Williams, 'Pastors, prophets and politicians: a study of the political development of the Brazilian Catholic church, 1916–1945' (unpublished PhD thesis, Columbia University, 1971). T. C. Bruneau, *The political transformation of the Brazilian Catholic Church* (New York, 1974) and *The Church in Brazil: the politics of religion* (Austin, TX, 1982); and Scott Mainwaring, *The Catholic Church and politics in Brazil, 1916–85* (Palo Alto, CA, 1986).

On Brazil's foreign relations in the period 1930–1945, see the relevant chapters in Amado Luiz Cervo and Clodoaldo Bueno, *História da política exterior do Brasil* (São Paulo, 1992); José Honório Rodrigues and Ricardo A. S. Seitenfus, *Uma história diplomática do Brasil, 1531–1945* (Rio de Janeiro, 1995); José G. de Albuquerque (ed.), *Sessenta anos de política externa brasileira, 1930–1990* (4 vols., São Paulo, 1996–2000); and Paulo F. Vinentini, *Relações internacionais do Brasil: de Vargas a Lula* (Porto Alegre, 2003). For Vargas's policy towards Britain, Germany and the United States during the 1930s, Stanley Hilton, *Brazil and the Great Powers, 1930–39. The politics of trade rivalry* (Austin, TX, 1975) is an important work.

On Brazil's relations with the United States during the Estado Novo, see Frank D. McCann, *The Brazilian-American alliance, 1937–1945* (Princeton, NJ, 1973). See also Roberto Gambini, *O duplo jogo de Getúlio Vargas: influência americana e alemão no Estado Novo* (São Paulo, 1977); Gerson Moura, *Autonomia na dependência: a política externa brasileira de 1935 a 1942* (Rio de Janeiro, 1980); and Francisco Luiz Corsi, *Estado Novo: política externa e projeto nacional* (São Paulo, 2000).

Brazil's decision to enter the Second World War on the side of the Allies in 1942 has been the subject of much heated academic debate. See Frank D. McCann, *The Brazilian-American alliance, 1937–1945*, cited earlier, and 'Brazil, the United States and World War II: A commentary', *Diplomatic History*, 3/1 (1979); Stanley E. Hilton, 'Brazilian diplomacy and the Washington–Rio de Janeiro "Axis" during the World War II era', *HAHR*, 59/2 (1979) and 'Critique' by McCann, *HAHR*, 59/4 (1979); Mônica Hirst, 'O Processo de alinhamento nas relações Brasil-Estados Unidos, 1942–45' (unpublished MA dissertation, Instituto Universitário de Pesquisas do Rio de Janeiro, 1982); R. A. Humphreys, *Latin America and the Second World War*, vol. 2, 1942–1945 (London, 1982), chapters 3 and 8; Ricardo Seitenfus, *O Brasil vai à Guerra. O processo do envolvimento brasileiro na Segunda Guerra Mundial* (first published in 1985 as *O Brasil de Getúlio Vargas e a formação dos blocos*; 2nd revised edition Porto Alegre, 2000; 3rd edition, Baurú, SP, 2003); Gerson Moura, 'Brazilian foreign relations, 1939–50: the changing nature of Brazil–U.S. relations during and after the Second World War' (unpublished PhD thesis, University of London, 1982; Portuguese translation *Sucessos e ilusões: relações internacionais do Brasil durante e após a Segunda Guerra Mundial*, Rio de Janeiro, 1991); Antônio Pedro Tota, *O imperialismo sedutor: a americanização do Brasil na época da Segunda Guerra* (São Paulo, 2000); and Vágner Camilo Alves, *O Brasil e a Segunda Guerra Mundial: história de um envolvimento forçado* (Rio de Janeiro, 2002).

Two studies of Brazilian diplomacy towards the Jews during the Holocaust are Jeffrey Lesser, *Welcoming the undesirables. Brazil and the Jewish Question* (Berkeley and Los Angeles, 1995) and Fabio Koifman, *Quixote nas trevas: o embaixador Souza Dantas e os refugiados do nazismo* (Rio de Janeiro, 2002). Ricardo Bonalume Neto, *A nossa Segunda Guerra: os brasileiros em combate 1942–1945* (Rio de Janeiro, 1995) and César Campiani Maximiano, *Irmãos de armas: um pelotão da FEB na II Guerra Mundial* (São Paulo, 2005) examine the role of the Brazilian expeditionary force, the FEB, in the Second World War. See also Helio Silva, 1944: *Brasil na Guerra* (Rio de Janeiro, 1972).

For an early and famous exchange of views on the fall of the Estado Novo (and Vargas) and the 'democratisation' of Brazil at the end of the Second World War, see Francisco Wefort, 'Origens do sindicalismo populista no Brasil (A conjuntura do após-guerra)', *Estudos CEBRAP*, 4 (April–June 1973) and Carlos Estevam Martins and Maria Hermínia Tavares de Almeida, 'Modus in rebus: Partidos e classes na queda do Estado Novo', unpublished paper, Centro Brasileiro de Análise e Planejamento (CEBRAP) (1973). See also Hélio Silva, 1945: *por que depuseram Vargas* (Rio de Janeiro, 1976) and Stanley Hilton, 'The overthrow of Getúlio Vargas in 1945: Diplomatic intervention, defense of democracy, or political retribution?', *HAHR*, 67/1 (1987). On the Liberal opposition to Vargas, see John W. F. Dulles, *The São Paulo Law School and the anti-Vargas resistance (1938–45)* (Austin, TX, 1986). On the role of the PCB, see Dulles, *Brazilian communism, 1935–1945*, cited earlier, and Arnaldo Spindel, *O Partido Comunista na gênese do populismo: análise da conjuntura de redemocratização no após-guerra* (São Paulo, 1980). On organised labour, see Angela de

Castro Gomes, *A Invenção do trabalhismo*, chapter 8, Luis Werneck Vianna, *Liberalismo e sindicato*, chapter 6, and John D. French, *Brazilian workers' ABC*, all cited earlier. See also by John French, 'The populist gamble of Getulio Vargas in 1945: political and ideological transitions in Brazil', in David Rock (ed.), *Latin America in the 1940s. War and post war transitions* (Berkeley, 1994). On the role of U.S. Ambassador Adolf Berle, see C. Neale Ronning, 'Adolf Berle in Brazil: 1945–6', in C. Neale Ronning and Albert P. Vannucci (eds.), *Ambassadors in foreign policy: the influence of individuals on U.S. Latin American policy* (New York, 1987); Jordan A. Schwarz, *Liberal: Adolf A. Berle and the vision of an American era* (New York, 1987); Stanley Hilton, *O ditador e o embaixador: Getúlio Vargas, Adolf Berle Jr. e a queda do Estado Novo* (Rio de Janeiro, 1987); and Berle's own published diaries and correspondence: B. B. Berle and T. B. Jacobs (eds.), *Navigating the rapids, 1918–71: from the papers of Adolf A. Berle* (New York, 1973). On Dutra, elected president in December 1945, see Osvaldo Trigueiro do Vale, *O General Dutra e a redemocratização de 1945* (Rio de Janeiro, 1978). A broad, general analysis of the post-Second World War conjuncture is Leslie Bethell, 'Brazil', in Leslie Bethell and Ian Roxborough (eds.), *Latin America between the Second World War and the Cold War, 1944–48* (Cambridge, 1992).

2. POLITICS, 1945–1964

The *DHBB* is indispensable for the politics of Brazil in the postwar period. Fundamental are Gláucio Ary Dillon Soares, *Sociedade e política no Brasil: desenvolvimento, classe e política durante a Segunda República* (São Paulo, 1973; revised and expanded edition, *A democracia interrompida*, Rio de Janeiro, 2001) and Maria do Carmo Campello de Souza, *Estado e partidos políticos no Brasil (1930 a 1964)* (São Paulo, 1976). See also Edgard Carone: *A Terceira República* (São Paulo, 1976) and *A República Liberal, I: Instituições e classes sociais, 1945–64, II Evolução política, 1945–64* (São Paulo, 1985); Maria do Carmo Campello de Souza, 'A democracia populista (1945–64): bases e limites', in Alain Rouquié et al. *Como renascem as democracias* (São Paulo, 1985); Francisco Weffort, *O populismo na política brasileira* (Rio de Janeiro, 1978) and 'Democracia e movimento operário: algumas questões para a história do período 1945–1964', *Revista de Cultura Contemporânea*, 11 (July 1978), 12 (January 1979); Lourdes Sola, *Idéias econômicas, decisões políticas (1945–1964)* (São Paulo, 1998); and Jorge Ferreira and Lucília de Almeida Neves Delgado (eds.), *O Brasil republicano*, vol. 3. *O tempo da experiência democrática – da democratização de 1945 ao golpe civil-militar de 1964* (Rio de Janeiro, 2003). Older accounts in English still worthy of note include Thomas E. Skidmore, *Politics in Brazil, 1930–1964: an experiment in democracy* (New York, 1967); Peter Flynn, *Brazil: a political analysis* (London, 1978); and Ronald M. Schneider, 'Order and Progress': a political history of Brazil (Boulder, CO, 1991).

On political parties and elections, see Phyllis J. Peterson, 'Brazilian political parties: formation, organisation and leadership, 1945–1959' (unpublished PhD thesis, University of Michigan, 1962), and 'Brazil, institutionalized confusion', in M. Needler (ed.), *Political systems of Latin America* (Princeton, NJ, 1964); David V. Fleischer (ed.), *Os partidos políticos no Brasil* (2 vols. Brasília, 1981); Olavo Brasil de Lima, *Os partidos políticos brasileiros: a experiência federal e regional, 1945–1964* (Rio de Janeiro, 1983); Antônio Lavareda, *A democracia nas urnas: o processo partidário eleitoral brasileiro* (Rio de Janeiro, 1991; 2nd revised edition, Rio de Janeiro, 1999); Rogério Schmitt, *Partidos políticos no Brasil (1945–2000)* (Rio de Janeiro, 2000); Walter Costa Porto, *O voto no Brasil: da Colônia a 5ª República*

(Brasília, 1989; 2nd revised edition, 2002); and Jairo Nicolau, *História do voto no Brasil* (Rio de Janeiro, 2002).

There are excellent histories of the three major political parties of the period. On the Partido Social Democrático (PSD), see Lúcia Hippólito, *De raposas e reformistas: o PSD e a experiência democrática brasileira (1945–64)* (Rio de Janeiro, 1985). On the União Democrática Nacional (UDN), see Maria Victoria Benevides, *UDN e udenismo: ambigüidades do liberalismo brasileiro (1945–1965)* (São Paulo, 1981), Izabel Fontenelle Picaluga, *Partidos políticos e classes sociais: a UDN na Guanabara* (Petrópolis, 1980) and Octavio Soares Dulci, *A UDN e o antipopulismo no Brasil* (Belo Horizonte, 1986). On the Partido Trabalhista Brasileira (PTB), see Lucília de Almeida Neves Delgado, *PTB: do getulismo ao reformismo, 1945–64* (São Paulo, 1989) and ‘Trabalhismo, nacionalismo e desenvolvimento. Um projeto para o Brasil (1945–1964)’, in Jorge Ferreira (ed.), *O populismo e sua história: debate e crítica* (Rio de Janeiro, 2001); Maria Celina Soares D’Araújo, *Sindicatos, carisma e poder. O PTB de 1945 a 1965* (Rio, 1996); Maria Victoria Benevides, *O PTB e o trabalhismo: partido e sindicato em São Paulo, 1945–65* (São Paulo, 1989); and Maria Andrea Loyola, *Os sindicatos e o PTB: estudo de um caso em Minas Gerais* (Petrópolis, 1980). See also a recent work Jorge Ferreira, *O imaginário trabalhista: getulismo, PTB e cultura política popular, 1945–64* (Rio de Janeiro, 2005).

On the Partido Comunista Brasileiro (PCB), see Ronald H. Chilcote, *The Brazilian Communist Party: conflict and integration, 1922–1972* (New York, 1974; Portuguese translation, 1982); Leôncio Martins Rodrigues, ‘O PCB: Os dirigentes e a organização’ in *HGCB III*, vol. 3; Moisés Vinhas, *O Partidão: uma luta por um partido de massas, 1922–1974* (São Paulo, 1982); Gildo Marçal Brandão, *A esquerda positiva. As duas almas do partido comunista, 1920–64* (São Paulo, 1997); Dulce Pandolfi, *Camaradas e companheiros. História e memória do PCB* (Rio de Janeiro, 1995); and José Antônio Segatto, *Reforma e revolução: as vicissitudes políticas do PCB (1954–64)* (Rio de Janeiro, 1995). On the Partido Social Progressista (PSP), see Regina Sampaio, *Adhemar de Barros e o PSP* (São Paulo, 1982). On the Partido Socialista Brasileiro (PSB), see Miracy Barbosa de Sousa Gustin e Margarida Luiza de Matos Vieira, *Semeando democracia. A trajetória do socialismo democrático no Brasil* (Contagem, MG, 1995). And on the Frente do Recife, see José Arlindo Soares, *A Frente do Recife e o governo do Arraes: nacionalismo em crise, 1955–1964* (São Paulo, 1982) and Roberto de Oliveira de Aguiar, *Recife da Frente ao golpe. Ideologias políticas em Pernambuco* (Recife, 1993).

On the political elites and the middle class in politics, see Sérgio Miceli, ‘Carne e osso da elite política brasileira pós-1930’ and Décio Saes, ‘Classe média e política no Brasil (1930–1964)’, in *HGCB III*, vol. 3. Philippe Schmitter, *Interest conflict and political change in Brazil* (Palo Alto, CA, 1971) is a study of interest group politics.

On the relationship between the state, the political parties and organised labour in the postwar period, see Timothy Harding, ‘A political history of organized labor in Brazil’ (unpublished PhD thesis, Stanford, 1973); Kenneth Erickson, *The Brazilian corporative state and working class politics* (Berkeley, 1977); Jover Telles, *O movimento sindical no Brasil* (Rio de Janeiro, 1962); Leôncio Martins Rodrigues, ‘Sindicalismo e classe operária (1930–1964)’ in *HGCB III*, vol. 3; Heloisa Helena Teixeira de Souza Martins, *O estado e a burocratização do sindicato no Brasil* (São Paulo, 1979); and Salvador Sandoval, *Os trabalhadores param. Greves e mudança social no Brasil, 1945–1990* (São Paulo, 1994). On the history of social welfare policy, see James M. Malloy, *The politics of social security in Brazil* (Pittsburgh, PA, 1979).

On the military in politics the key work remains Alfred C. Stepan, *The military in politics: changing patterns in Brazil* (Princeton, 1971), Part II. The 'moderating' pattern of civil-military relations, 1945–64. See also Edmundo Campos Coelho, *Em busca de identidade: o exército e a política na sociedade brasileira* (Rio de Janeiro, 1976) and Eliézer Rizzo de Oliveira, 'La participation politique des militaires au Brésil [1945–1964]' (unpublished PhD thesis, Paris, 1980).

On the Church, see T. C. Bruneau, *The political transformation of the Brazilian Catholic Church* (New York, 1974) and *The Church in Brazil: the politics of religion* (Austin, TX, 1982) and Scott Mainwaring, *The Catholic Church and politics in Brazil, 1916–1985* (Palo Alto, CA, 1986).

There is no general study of the Dutra administration (1946–51) or scholarly biography of Dutra, but see Mauro R. Leite and Novelli Júnior, *Marechal Eurico Dutra: o dever da verdade* (Rio de Janeiro, 1983). On the constituent assembly of 1946, see João Almino, *Os democratas autoritários. Liberdades individuais, de associação política e sindical na constituinte de 1946* (São Paulo, 1980), *Revista de sociologia e política* (Universidade Federal do Paraná), 61/7 (1996) 'Dossiê Constitucional de 1946', and Octaciano Nogueira, *A Constituinte de 1946. Getúlio, o sujeito oculto* (São Paulo, 2005). On the Dutra administration's relations with organised labour and communism, see Leslie Bethell, 'Brazil', in Leslie Bethell and Ian Roxborough (eds.), *Latin American between the Second World War and the Cold War, 1944–1948* (Cambridge, 1992). On urban labour, see also Luiz Werneck Vianna, *Liberalismo e sindicato no Brasil*, chapter 6, *Liberalismo político e corporativismo sindical 1946* (São Paulo, 1976; 4th revised edition, Belo Horizonte, 1999); John D. French, *The Brazilian Workers' ABC. Class conflict and alliances in modern São Paulo* (Chapel Hill, 1992), Part Two, Industrial workers and the birth of the populist republic, 1945–6 and Part Three, The promise and pitfalls of democracy, 1947–53 which includes an important chapter on workers and the rise of adhemarista populism in São Paulo; Joel Wolfe, *Working women, working men. São Paulo and the rise of Brazil's industrial working class, 1900–1955* (Durham, NC 1993), chapters 5 and 6; and Hélio da Costa, *Em busca da memória: comissões de fábrica, partido e sindicato no pós-guerra* (São Paulo, 1995).

On the Vargas administration (1951–1954), see Maria Celina Soares D'Araújo, *O segundo governo Vargas, 1951–4: democracia, partidos e crise política* (Rio de Janeiro, 1982); Angela de Castro Gomes (ed.), *Vargas e a crise dos anos 50* (Rio de Janeiro, 1994); and Maria Celina D'Araújo, 'Nos braços do povo: a segunda presidência de Getúlio Vargas', in D'Araújo (ed.), *As instituições brasileiras da era Vargas* (Rio de Janeiro, 1999). See also Adelina Maria Alves Novais e Cruz et al. (eds.), *Impasse na democracia brasileira, 1951–55: coletânea de documentos* (Rio de Janeiro, 1983). Biographies of Vargas are listed in Bibliographical Essay 1. On the politics of oil and the creation of Petrobrás, see John D. Wirth, *The politics of Brazilian development, 1930–54* (Stanford, 1970) and 'Setting the Brazilian agenda, 1936–53', in Wirth (ed.), *Latin American oil companies and the politics of energy* (Lincoln, NE, 1985); Peter S. Smith, *Oil and politics in modern Brazil* (Toronto, 1976); George Philip, *Oil and politics in Latin America* (Cambridge, 1982), chapter 11; Gabriel Cohn, *Petróleo e nacionalismo* (São Paulo, 1968); and Luciano Martins, *Pouvoir et développement économique: formation et évolution des structures politiques au Brésil* (Paris, 1976), chapter 6, 'La politique du pétrole et la nationalisme'. José Alvaro Moisés, *Greve de massa e crise política: estudo da greve dos 300 mil em São Paulo* (São Paulo, 1978) analyses the labour militancy of 1953–1954. On the crisis leading to the suicide of Getúlio Vargas in August 1954, see J. V. D. Saunders, 'A revolution of agreement among friends: the end of the Vargas era', *HAHR*, 44/2 (1964)

Helio Silva, *1954: um tiro no coração* (Rio de Janeiro, 1978); Armando Boito Júnior, *O golpe de 1954: a burguesia contra o populismo* (São Paulo, 1982); and, on the much debated question of Vargas's *carta-testamento*, José Murilo de Carvalho, 'As duas mortes de Getúlio Vargas', in *Pontos e bordados* (Belo Horizonte, 1998).

On the Kubitschek administration (1956–1961), see Maria Victoria Benevides, *O governo Kubitschek: desenvolvimento econômico e estabilidade política, 1956–61* (Rio de Janeiro, 1976); Angela de Castro Gomes (ed.), *O Brasil de JK* (Rio de Janeiro, 1991); and Robert J. Alexander, *Juscelino Kubitschek and the development of Brazil* (Athens, Ohio, 1991). Claudio Bojunga, *JK. O artista do impossível* (Rio de Janeiro, 2001) is an outstanding recent biography. Specifically on the economy, see also Celso Lafer, 'The planning process and the political system in Brazil: a study of Kubitschek's target plan' (PhD thesis, Cornell University, 1970; published as *JK e o programa de metas* (Rio de Janeiro, 2002). Edward Anthony Riedinger, *Como se faz um presidente: a campanha de JK* (Rio de Janeiro, 1988) examines Kubitschek's election in 1955. On the congressional elections of 1958, see a special issue of the *Revista Brasileira de Estudos Políticos*, vol. 16 (1964). Sheldon Maram, 'Juscelino Kubitschek and the 1960 presidential election', *JLAS*, 24/1 (1992) examines the role of Kubitschek in the elections that gave victory to Jânio Quadros.

For an excellent recent account of Quadros's political career, see Ricardo Arnt, *Jânio Quadros. O prometeu de Vila Maria* (Rio de Janeiro, 2004). On the Quadros administration (1961), see Maria Vitoria Benevides, *O governo Jânio Quadros* (São Paulo, 1981). Vera Chaiia, *A liderança política de Jânio Quadros* (São Paulo, 1991) is an interesting study of Quadros's political career as a whole; chapter 5 deals with the Quadros presidency. The resignation of Quadros in August 1961 remains to be adequately explained. But see Hélio Jaguaribe, 'A renúncia de Jânio Quadros e a crise política brasileira', *Revista Brasileira de Ciências Sociais*, 1/1 (1961), a classic contemporary account which has stood the test of time. On the immediate consequences of the resignation, see Amir Labaki, *1961: a crise da renúncia e a solução parlamentarista* (São Paulo, 1986).

There is no satisfactory general account of the Goulart administration (1961–1964), that is to say, of the prolonged political crisis which began with the resignation of Jânio Quadros and culminated in the overthrow of his constitutional successor by military coup in March–April 1964. Wanderley Guilherme dos Santos, 'The calculus of conflict: impasse in Brazilian politics and the crisis of 1964' (PhD thesis, Stanford University, 1974; Portuguese translation *Sessenta e quatro: anatomia da crise* (São Paulo, 1986); 2nd edition *O cálculo do conflito: estabilidade e crise na política brasileira*, Belo Horizonte and Rio de Janeiro, 2003) and Argelina Maria Cheibub Figueiredo, 'Political coalitions in Brazil, 1961–1964: democratic alternatives to the political crisis' (PhD thesis, University of Chicago, 1987; Portuguese translation, *Democracia ou reformas? Alternativas democráticas a crise política, 1961–1964*, São Paulo, 1993) are fundamental, as is Alfred Stepan, *Military in politics*, Part III: The breakdown of the 'moderating pattern' of civil–military relations and the emergence of military rule. Stepan's chapter, 'Political leadership and regime breakdown: Brazil', in Juan Linz and Alfred Stepan (eds.), *The breakdown of democratic regimes* (Baltimore, 1978) offers an excellent, brief analysis. See also Youssef Cohen, *Radicals, reformers and revolutionaries. The prisoner's dilemma and the collapse of democracy in Latin America* (Chicago, 1994). Also valuable are John W. F. Dulles, *Unrest in Brazil: civil–military conflict, 1955–1964* (Austin, TX, 1970); Luis Alberto Moniz Bandeira, *O governo João Goulart: as lutas sociais no Brasil, 1961–1964* (Rio de Janeiro, 1978; 7th revised and expanded edition, 2001); Jorge Ferreira, 'O governo Goulart e o golpe civil–militar de 1964',

in Ferreira and Neves Delgado (eds.), *O Brasil republicano*, cited earlier in this essay; and Marco Antônio Villa, *Jango: um perfil (1945–1964)* (São Paulo, 2004). A number of recent edited volumes have begun the process of reexamining Goulart and his administration: for example, Oswaldo Munteal, Jacqueline Ventapane and Adriano de Freixo (eds.), *O Brasil de João Goulart: um projeto de nação* (Rio de Janeiro, 2006); Marieta de Moraes Ferreira (ed.), *João Goulart entre a memória e a história* (Rio de Janeiro, 2006); and Angela de Castro Gomes and Jorge Ferreira (eds.), *Jango. As múltiplas faces* (Rio de Janeiro, 2007).

On the economic problems of the early 1960s and their contribution to the political crisis, see Michael Wallerstein, 'The collapse of democracy in Brazil: its economic determinants', *LARR*, 15/3 (1980) and Marcelo de Paiva Abreu, 'Inflação, estagnação e ruptura: 1961–64', in Abreu (ed.), *A ordem do progresso. Cem anos de política econômica republicana, 1889–1989* (Rio de Janeiro, 1990).

On the congressional elections of 1962, see T. Cavalcanti and R. Dubnic (eds.), *Comportamento eleitoral no Brasil* (Rio de Janeiro, 1964) and a special issue of the *Revista Brasileira de Estudos Políticos*, vol. 16 (1964). On the militancy of organised labour, see Sérgio Amad Costa, *O CGT e as lutas sindicais brasileiras (1960–64)* (São Paulo, 1981) and Lucília de Almeida Neves Delgado, *O Comando Geral dos Trabalhadores no Brasil, 1961–4* (Belo Horizonte, 1981). On the role of radicals in the Church, see Emanuel de Kadt, *Catholic radicals in Brazil* (London, 1970). On peasant leagues and rural unions in the Northeast, see Clodomiro Moraes, 'Peasant Leagues in Brazil', in R. Stavenhagen (ed.), *Agrarian problems and peasant movements in Latin America* (Garden City, NY, 1970); Cynthia Hewitt, 'An analysis of the peasant movement in Pernambuco, Brazil: 1961–1964', in Henry Landsberger (ed.), *Latin American peasant movements* (Ithaca, NY, 1969); Shepard Forman, 'Disunity and discontent: a study of peasant political movements in Brazil', in R. Chilcote (ed.), *Protest and resistance in Angola and Brazil* (Berkeley, 1972); Joseph A. Page, *The revolution that never was: Northeast Brazil, 1955–1964* (New York, 1972); Florencia E. Mallon, 'Peasants and rural laborers in Pernambuco, 1955–1964', *Latin American Perspectives*, 5/4 (1978); Fernando Antônio F. Azevedo, *As Ligas Camponesas: campesinato e política, 1955–64* (Recife, 1982); Anthony W. Pereira, *The end of the peasantry. The rural labor movement in Northeast Brazil, 1961–1988* (Pittsburgh, PA, 1997), Part I. On rural workers in São Paulo, see Cliff Welch, 'Rivalry and unification: mobilising rural workers in São Paulo on the eve of the Brazilian golpe of 1964', *JLAS*, 27/1 (1995) and *The seed was planted. The São Paulo roots of Brazil's rural labor movement, 1924–1964* (University Park, PA, 1999).

On the 1964 coup, the best contemporary account remains Alberto Dines et al., *Os idos de março e a queda em abril* (Rio de Janeiro, 1964). A number of older works are still valuable: Carlos Castello Branco, *Introdução à revolução de 1964*, vol. 1, *Agonia do poder civil*, vol. 2, *A queda de João Goulart* (Rio de Janeiro, 1975); Helio Silva, *1964: golpe ou contragolpe?* (Rio de Janeiro, 1975); René Dreifuss, *1964: a conquista do estado: ação política, poder e golpe de classe* (Petrópolis, 1981), based on prodigious but somewhat undisciplined research; and Denis de Moraes, *A esquerda e o golpe de 64 – vinte cinco anos depois* (Rio de Janeiro, 1989). John W. F. Dulles, *Castelo Branco: the making of a Brazilian president* (College Station, TX, 1978) is the first of a two-volume biography of one of the key figures in the planning of the coup who became president on the overthrow of Goulart. See also by Dulles, *Carlos Lacerda: Brazilian crusader*, vol. I, *1914–1960* (Austin, TX, 1991) and vol. II *1960–1977* (Austin, TX, 1996), a biography of one of the period's most controversial politicians,

who played a central role in the suicide of Vargas in 1954, the failed attempt in 1955 to prevent Kubitschek becoming president, the resignation of Quadros in 1961, and the overthrow of Goulart in 1964. More recent contributions on the *golpe* include Maria Celina D'Araújo, Gláucio Ary Dillon Soares and Celso Castro, *Visões do golpe: a memória militar sobre 1964* (Rio de Janeiro, 1994); Gláucio Ary Dillon Soares, 'O golpe de 64', in Dillon Soares and Maria Celina D'Araújo (eds.), *21 anos de regime militar: balanços e perspectivas* (Rio de Janeiro, 1994); Caio Navarro de Toledo (ed.), *1964: visões críticas do golpe – democracia e reformas no populismo* (São Paulo, 1997); Daniel Aarão Reis Filho, 'O colapso do populismo ou a propósito de uma herança maldita', in Jorge Ferreira, *O populismo e sua história: debate e crítica* (Rio de Janeiro, 2001); Ollie Andrew Johnson III, *Brazilian party politics and the coup of 1964* (Gainesville, 2001); Elio Gaspari, *A ditadura envergonhada* (São Paulo, 2002), Part I. A queda; Carlos Fico, *Além do golpe: versões e controvérsias sobre 1964 e a ditadura militar* (Rio de Janeiro, 2004); and three volumes marking the fortieth anniversary of the golpe: *1964–2004. 40 anos do golpe. Ditadura militar e resistência no Brasil* (Rio de Janeiro, 2004), the proceedings of a seminar organised jointly by the Departments of History of UFRJ and UFF, the Centro de Pesquisa e Documentação de História Contemporânea do Brasil (CPDOC) of the Fundação Getúlio Vargas, Rio de Janeiro and the Arquivo Público do Estado do Rio de Janeiro; Daniel Aarão Reis, Marcelo Ridenti and Rodrigo Patto Sá Motta (eds.), *O golpe e a ditadura militar. 40 anos depois (1964–2004)* (Bauru, SP, 2004); and João Roberto Martins Filho, *O golpe de 1964 e o regime militar: novas perspectivas* (São Carlos, SP, 2006).

For an overview of Brazil's international relations and foreign policy in this period, see Gerson Moura, *Sucessos e ilusões: relações internacionais do Brasil durante e após a Segunda Guerra Mundial* (Rio de Janeiro, 1991), Paulo F. Vinentini, *Relações internacionais e desenvolvimento: o nacionalismo e a política externa independente, 1951–1964* (Petrópolis, 1995) and the relevant chapters of Amado Luiz Cervo and Clodoaldo Bueno, *A história da política exterior do Brasil* (São Paulo, 1992), José Guilhon de Albuquerque (ed.), *Sessenta anos de política externa brasileira, 1930–1990* (4 vols., São Paulo, 1996–2000), and Raúl Mendes Silva and Clovis Brigagão (eds.), *História das relações internacionais do Brasil* (Rio de Janeiro, 2001). The best studies of United States–Brazil relations during the 1945–1964 period are Gerald K. Haines, *The Americanization of Brazil: a study of U.S. Cold War diplomacy in the Third World, 1945–1954* (Wilmington, DE 1989); W. Michael Weis, *Cold Warriors and coups d'état. Brazilian–American relations, 1945–1964* (Albuquerque, NM, 1993); and Sonny B. Davis, *A brotherhood of arms: Brazil–United States military relations, 1945–1977* (Boulder, CO, 1996). See also Elizabeth A. Cobbs, *The rich neighbor policy: Rockefeller and Kaiser in Brazil* (New Haven, CT, 1992).

On the international relations of Brazil during the second Vargas administration, see Mônica Hirst, *O pragmatismo impossível: a política externa do segundo governo Vargas (1951–1954)* (Rio de Janeiro, 1990). For an appraisal of Juscelino Kubitschek's foreign policy, see Alexandra de Mello e Silva, *A política externa de JK: a Operação Pan-Americana* (Rio de Janeiro, 1992). For all the innovation of foreign policy under Quadros and Goulart a comprehensive account is still lacking, but see Keith Larry Storrs, 'Brazil's independent foreign policy, 1961–64' (unpublished PhD thesis, Cornell University, 1973); Antônio J. Barbosa, 'O Parlamento e a política externa brasileira (1961–1967)' (unpublished PhD thesis, University of Brasília, 2000); Gelson Fonseca Jr., 'Mundos diversos, argumentos afins: aspectos doutrinários da política externa independente e do pragmatismo responsável'

in his *A legitimidade e outras questões internacionais* (São Paulo, 1998); and Luiz F. Ligiéro, 'Políticas semelhantes em momentos diferentes: exame e comparação entre a política externa independente (1961–1964) e o pragmatismo responsável (1974–1979)' (unpublished PhD thesis, University of Brasília, 2000).

The role of the United States in the 1964 coup is discussed in Skidmore, *Politics in Brazil*, cited earlier, Appendix; Marcos Sá Corrêa, *1964: visto e comentado pela Casa Branca* (Porto Alegre, 1977); Phyllis Parker, *Brazil and the quiet intervention*, 1964 (Austin, TX, 1979); Ruth Leacock, *Requiem for revolution: the United States and Brazil, 1961–8* (Kent, OH, 1990); numerous newspaper and magazine articles as material from U.S. archives was released; and most recently in the memoirs of the U.S. ambassador to Brazil Lincoln Gordon, *Brazil's second chance: En route toward the First World* (Washington, DC, 2001), revised and amplified Portuguese edition, *A segunda chance do Brasil: a caminho do primeiro mundo* (São Paulo, 2002).

3. POLITICS, 1964–1985

As for politics under Vargas (1930–1945) and politics under the Liberal Republic (1964–1985), the *DHBB* is indispensable for the politics of Brazil under military rule (1964–1985). Thomas E. Skidmore, *The politics of military rule in Brazil, 1964–85* (New York, 1988), and Ronald M. Schneider, *'Order and Progress': a political history of Brazil* (Boulder, CO, 1991), chapters 7 and 8, remain the best guides in English (and have comprehensive bibliographical endnotes). For an overview in Portuguese covering the politics and also the economic and social dimensions of the period of military dictatorship, see the essays in Maria Celina D'Araújo and Gláucio Ary Dillon Soares (eds.), *21 anos de regime militar: balanços e perspectivas* (Rio de Janeiro, 1994). Recent scholarship in Portuguese has increasingly drawn on interviews and declassified documents. For an understanding of the military's own view of its experience in power the principal source is a three-volume work edited by Maria Celina D'Araújo, Gláucio Ary Dillon Soares and Celso Castro, *Visões do golpe: a memória militar sobre 1964* (1994), *Os anos de chumbo: a memória militar sobre a repressão* (1994), and *A volta aos quartéis: a memória militar sobre a abertura* (1995), which consist of interviews with officers who occupied important positions in the regime. See also Ronaldo Costa Couto, *História indiscreta da ditadura e da abertura. Brasil: 1964–85* (Rio de Janeiro, 1999) and *Memória viva do regime militar. Brasil: 1964–85* (Rio de Janeiro, 1999) which includes interviews with leading military and civilian figures of the period. The journalist Elio Gaspari has so far published four of five projected volumes under the general title *As ilusões armadas* on the military regime from 1964 to 1979, principally from the standpoint of General Ernesto Geisel and General Golbery do Couto e Silva: *A ditadura envergonhada* (2002) [on 1964], *A ditadura escancarada* (2002) [on 1964–1973], *A ditadura derrotada* (2003) [on 1974] and *A ditadura encurralada* (2004) [on 1975–1977]. They are a huge and invaluable source of information: besides dozens of interviews, the author had unique access to the personal archive of General Golbery and the diaries of Heitor Ferreira who was, at different times, secretary to both Golbery and Geisel.

On the politics of presidential succession in this period, Aspásia Camargo and Wálder de Góes, *O drama da sucessão* (Rio de Janeiro, 1984) remains the most complete work. Carlos Chagas, *A guerra das estrelas (1964–84): os bastidores das sucessões presidenciais* (Porto Alegre,

1985) also has a good deal to offer. On relations between the federal government and state governments under the military, Antônio Medeiros, *Politics and intergovernmental relations in Brazil* (New York, 1986) is instructive.

Other relevant general works written before the transition from military to civilian rule in 1985, and therefore focussing on the early and middle periods of military rule, include Barry Ames, *Rhetoric and reality in a military regime: Brazil since 1964* (Beverly Hills, CA, 1975); Lúcia Klein and Marcus Figueiredo, *Legitimidade e coação no Brasil pós 64* (Rio de Janeiro, 1978); Peter Flynn, *Brazil: a political analysis* (London, 1978), chapters 9–11; Alain Rouquié (ed.), *Les partis militaires au Brésil* (Paris, 1980; Portuguese translation, 1992); Philippe Faucher, *Le Brésil des militaires* (Montreal, 1981); Peter McDonough, *Power and ideology in Brazil* (Princeton, NJ, 1981); and Bernardo Sorj and Maria Hermínia Tavares de Almeida (eds.), *Sociedade e política no Brasil pós-1964* (São Paulo, 1984).

Politics in the years immediately after the coup – the presidencies of Castelo Branco (1964–1967) and Costa e Silva (1967–1969) – can be studied in John W. F. Dulles, *President Castelo Branco, Brazilian reformer* (College Station, TX, 1980); Luís Viana Filho, *O governo Castelo Branco* (Rio de Janeiro, 1975), the best account by an insider; Alfred Stepan, *The military in politics: changing patterns in Brazil* (Princeton, NJ, 1971), Part 4; Eliézer Rizzo de Oliveira, *As forças armadas: política e ideologia no Brasil, 1964–69* (Petrópolis, 1976); Ronald M. Schneider, *The political system of Brazil: emergence of a ‘modernizing’ authoritarian regime, 1964–1970* (New York, 1971); Georges-André Feichter, *Le regime modernisateur du Brésil, 1964–72* (Geneva, 1972; English translation, *Brazil since 1964: modernisation under a military regime*, New York, 1975); Wanderley Guilherme dos Santos, *Poder e política: crônica do autoritarismo brasileiro* (Rio de Janeiro, 1978); and an important collection of essays on various aspects of military rule, Alfred Stepan (ed.), *Authoritarian Brazil: origins, policy and future* (New Haven, CT, 1973). A more recent account of the years 1964–1969 is João Roberto Martins Filho, *O palácio e a caserna: a dinâmica militar das crises políticas na ditadura (1964–69)* (São Carlos, SP, 1996). See also an essay by Renato Lemos, ‘Poder judiciário e poder militar (1964–69)’, in Celso Castro, Vitor Izecksohn and Hendrik Kraay (eds.), *Nova história militar brasileira* (Rio de Janeiro, 2004).

On the Médici administration (1969–1974), see Peter McDonough, ‘Mapping an authoritarian power structure: Brazilian elites during the Médici regime’, *LARR*, 16/1 (1981); and Daniel Drosdoff, *Linha dura no Brasil. O governo Médici, 1969–1974* (São Paulo, 1986).

On the Geisel administration (1974–79), the standard contemporary account remains Wálter de Góes, *O Brasil do General Geisel: estudo do processo de tomada de decisão no regime militar burocrático* (Rio de Janeiro, 1978). See also Eliézer Rizzo de Oliveira, ‘Conflits militaires et décisions sous le présidence du General Geisel (1974–1979)’ in *Les partis militaires au Brésil* (Paris, 1980). Celso Castro and Maria Celina D’Araújo, *Ernesto Geisel* (Rio de Janeiro, 1997) is an in-depth interview with Geisel. *Dossiê Geisel* (Rio de Janeiro, 2002) by Castro and D’Araújo is based on documents in Geisel’s personal archive. Sylvio Frota’s account of the crisis surrounding his dismissal as Army minister in 1977, the most serious of the Geisel administration, was published for the first time ten years after his death in 1996: *Idéias traídos* (Rio de Janeiro, 2006). Volumes 3 and 4 of Gaspari’s history of the dictatorship *As ilusões armadas* (cited earlier in this essay) are fundamental.

On the repressive apparatus of the military regime, Ana Lagôa, *SNI: como nasceu, como funciona* (São Paulo, 1983) is valuable. Carlos Fico, *Como eles agiam: os subterrâneos da ditadura*

militar – espionagem e polícia política (Rio de Janeiro, 2001) analyses the documents of the Divisão de Segurança e Informações of the Ministry of Justice. On the political propaganda of the regime, the most complete study is Carlos Fico, *Reinventando o otimismo: ditadura, propaganda e imaginário social no Brasil* (Rio de Janeiro, 1997).

The state and especially the economic role of the state during the period of military rule have attracted a good deal of attention. See, in particular, Peter Evans, *Dependent development: the alliance of multinational, state and local capital in Brazil* (Princeton, NJ, 1979); Luciano Martins, *Estado capitalista e burocracia no Brasil pós 64* (Rio de Janeiro, 1985); Christian Anglade, 'Brazil', in C. Anglade and C. Fortin (eds.), *The state and capital accumulation in Latin America*, vol. I, *Brazil, Chile, Mexico* (London, 1985); Thomas J. Trebat, *Brazil's state-owned enterprises: a case study of the state as entrepreneur* (New York, 1983); and Ben Ross Schneider, *Politics within the state: elite bureaucrats and industrialization policy in authoritarian Brazil* (Pittsburgh, PA, 1992).

The question of labour control under the military can be approached through Kenneth S. Mericle, 'Corporatist control of the working class: authoritarian Brazil since 1964', in James M. Malloy (ed.), *Authoritarianism and corporatism in Latin America* (Pittsburgh, PA, 1976) and John Humphrey, *Capitalist control and workers' struggle in the Brazilian auto industry* (Princeton, NJ, 1982). See also Youssef Cohen, *The manipulation of consent: the state and working class consciousness in Brazil* (Pittsburgh, PA, 1989). On rural trade unions and peasant movements, see Biorn Maybury-Lewis, *The politics of the possible: the Brazilian rural workers' trade union movement, 1964–85* (Philadelphia, PA, 1994) and Anthony W. Pereira, *The end of the peasantry: the rural labor movement in Northeast Brazil, 1961–88* (Pittsburgh, PA, 1997).

The most comprehensive account of the opposition to the military and the repression it suffered remains Maria Helena Moreira Alves, *Estado e oposição no Brasil, 1964–1984* (Petrópolis, 1984; English translation, *State and opposition in military Brazil*, Austin, TX, 1985). On the Left in general, and the armed urban guerrilla struggle, in particular, Jacob Gorender, *Combate nas trevas: a esquerda brasileira das ilusões perdidas à luta armada* (São Paulo, 1987; 6th edition 2003) is fundamental. See also Luís Mir, *A revolução impossível. A esquerda e a luta armada no Brasil* (São Paulo, 1994); Daniel Aarão Reis Filho, *Os comunistas no Brasil* (São Paulo, 1989) and *Ditadura militar, esquerdas e sociedade* (Rio de Janeiro, 2000); Celso Frederico (ed.), *A esquerda e o movimento operário – 1964–84*. Vol. 1: *A resistência à ditadura* (São Paulo, 1987); Marcelo Ridenti, *O fantasma da revolução brasileira* (São Paulo, 1993); and Denise Rollemberg, *O apoio de Cuba à luta armada no Brasil: o treinamento guerrilheiro* (Rio de Janeiro, 2001). On the rural guerrilla movement in Araguaia, see Romualdo Pessoa Campos Filho, *Guerrilha do Araguaia. A esquerda em armas* (Goiânia, 1997), Pedro Corrêa Cabral, *Xamboá. Guerrilha no Araguaia* (Rio de Janeiro, 1993), and a recent study by two journalists Tais Morais and Eumano Silva, *Operação Araguaia. Os arquivos secretos da guerrilha* (São Paulo, 2005).

On the role of women in the opposition and resistance to the dictatorship, see Luiz Maklouf Carvalho, *Mulheres que foram à luta armada* (São Paulo, 1998) and Elizabeth F. Xavier Ferreira, *Mulheres, militância e memória* (Rio de Janeiro, 1996). On the student opposition movement, see Luiz Alberto Gómez de Souza, *A JUC. Os estudantes católicos e a política* (Petrópolis, 1984) and Maria de Lourdes de Fávero, *UNE em tempos de autoritarismo* (Rio de Janeiro, 1995). The position of the Brazilian middle class throughout this period

is the object of Maria Hermínia Tavares de Almeida and Luiz Weis, 'Carro-zero e pau-de-arara: o cotidiano da oposição de classe média ao regime militar', in Lília Moritz Schwartz (ed.), *História da vida privada no Brasil*, vol. 4 (São Paulo, 1998).

On the Church and the military regime, see Thomas C. Bruneau, *The political transformation of the Brazilian Catholic Church* (Cambridge, 1974) and *The Church in Brazil. The politics of religion* (Austin, TX, 1982), and Scott Mainwaring, *The Catholic Church and politics in Brazil, 1916–1985* (Sanford, 1986), especially Part II on the period 1964–1973. An important recent study is Kenneth P. Serbin, *Secret dialogues. Church–state relations, torture and social justice in authoritarian Brazil* (Pittsburgh, PA, 2000; Portuguese translation, *Diálogos na sombra*, São Paulo, 2001).

The role of the press can be studied in Paolo Marconi, *A censura política na imprensa brasileira – 1968–78* (São Paulo, 1980); Maria Aparecida de Aquino, *Censura, imprensa, Estado autoritário (1968–1978)* (Baurú, SP, 1999); M Pereira, *O golpe do silêncio: imprensa, censura e medidas de emergência* (São Paulo, 1984); Pery Cotta, *Calandra. O sufoco da imprensa nos anos de chumbo* (Rio de Janeiro, 1997); and especially in Bernardo Kucinski, *Jornalistas e revolucionários. Nos tempos da imprensa alternativa* (São Paulo, 1991; 2nd revised edition, 2003). On culture during the military dictatorship, see Marcos Napolitano, *Cultura e poder no Brasil contemporâneo (1977–84)* (Curitiba, 2002) and Marcelo Ridenti, *Em busca do povo brasileiro* (Rio de Janeiro, 2000), an important study of opposition cultural movements driven by what the author calls 'romanticismo revolucionário'.

On political parties under the military dictatorship, see, in particular, Maria D'Alva Gil Kinzo, *Legal opposition politics under authoritarian rule in Brazil: the MDB, 1966–79* (Oxford, 1988; Portuguese translation, São Paulo, 1988), the major study of the principal opposition party (from 1966 to 1979, the only opposition party), the MDB (later PMDB). On ARENA (later PDS), the party of government, see Timothy Power, *The political Right in post-authoritarian Brazil: elites, institutions and democratization* (University Park, PA, 2000), chapter 3, 'ARENA and its ancestors: The Brazilian political right, 1946–85'. See also Bolívar Lamounier and Fernando Henrique Cardoso (eds.), *Os partidos e as eleições no Brasil* (Rio de Janeiro, 1975); Margaret Sarles Jenks, 'Political parties in authoritarian Brazil' (unpublished PhD thesis, Duke University, 1979) and 'Maintaining control through political parties: the Brazilian strategy', *Comparative Politics*, 15/1 (1982); Wanderley Guilherme dos Santos, *Crise e castigo: partidos e gerais na política brasileira* (São Paulo, 1987); David V. Fleischer, *Os partidos políticos no Brasil* (2 vols., Brasília, 1981); Olavo Brasil de Lima (ed.), *O sistema partidário brasileiro: diversidade e tendências 1982–94* (Rio de Janeiro, 1997); and Rogério Schmitt, *Partidos políticos no Brasil (1945–2000)* (Rio de Janeiro, 2000).

On federal and state legislative elections under military rule, see Raimundo Pereira et al., *Eleições no Brasil pós 64* (Rio de Janeiro, 1984); Bolívar Lamounier (ed.), *Voto de desconfiança: eleições e mudança política no Brasil, 1970–1979* (Petrópolis, 1980); Lamounier and Cardoso (eds.), *Partidos políticos e eleições*, cited earlier; Eli Diniz, *Voto e máquina política: patronagem e clientelismo no Rio de Janeiro* (Rio de Janeiro, 1982); Joaquim Falcão (ed.), *Nordeste: eleições* (Recife, 1985); Fundação Milton Campos, *As eleições nacionais de 1978* (2 vols., Brasília, 1979); David V. Fleischer, 'Constitutional and electoral engineering in Brazil: a double edged sword, 1964–1982', *Inter-American Economic Affairs*, 37/4 (1984) and Fleischer (ed.), *Da distensão à abertura: as eleições de 1982* (Brasília, 1988). See also special issues of the *Revista Brasileira de Estudos Políticos*: 23/24 (1967–8) on the 1966 elections;

43 (1976) on the 1974 elections; 51 (1980) on the 1978 elections; and 57 (1983) on the 1982 elections. On the municipal elections of 1976, Fabio Wanderley Reis (ed.), *Os partidos e o regime: A lógica de processo eleitoral brasileiro* (São Paulo, 1978) is a useful study.

On the controlled political liberalisation – initiated in 1974 and continued – fitfully – during the Geisel administration and the Figueiredo years from 1979, leading to the transition to civilian rule in 1985, there is an extensive literature. A good starting point is Thomas E. Skidmore, 'Brazil's slow road to democratisation, 1974–1985' and Bolívar Lamounier, 'Authoritarian Brazil revisited: the impact of elections on the *abertura*', in Alfred Stepan (ed.), *Democratizing Brazil: problems of transition and consolidation* (New York and Oxford, 1989). There is an earlier version of Lamounier's essay in *Dados* 29/3, 1986. See also Suzeley Kalil Mathias, *A distensão no Brasil: o projeto militar, 1973–79* (Campinas, 1995); Luciano Martins, 'The "liberalisation" of authoritarian rule in Brazil', in Guillermo O'Donnell, Philippe C. Schmitter and Laurence Whitehead (eds.), *Transitions from authoritarian rule: Latin America* (Baltimore, 1986); M. F. Figueiredo and J. A. B. Cheibub, 'A abertura política de 1973 a 1981: Quem disse o quê, quando - inventário de um debate', *Boletim Informativo e Bibliográfico de Ciências Sociais*, 14 (1982); Sebastião C. Velasco e Cruz and Carlos Estevam Martins, 'De Castelo a Figueiredo: uma incursão na pré-história de "abertura"', in Sorj and Tavares de Almeida (eds.), *Sociedade e política*, cited earlier; Bolívar Lamounier and Alkimar R. Moura, 'Economic policy and political opening in Brazil', in J. Hartlyn and Samuel A. Morley (eds.), *Latin American political economy: financial crisis and political change* (Boulder, CO, 1986); Alfred Stepan, *Os militares: da abertura à Nova República* (Rio de Janeiro, 1986) and *Rethinking military politics. Brazil and the Southern Cone* (Princeton, NJ, 1988); Wayne A. Selcher (ed.), *Political liberalization in Brazil: dynamics, dilemmas and future prospects* (Boulder, CO, 1986); David Fleischer (ed.), *Da distensão à abertura*, cited earlier; Kurt von Mettenheim, *The Brazilian voter: mass politics in democratic transition, 1974–86* (Pittsburgh, PA, 1995); David Fleischer, 'Brazil at the crossroads: the elections of 1982 and 1985' and Gláucio Ary Dillon Soares, 'Elections and the redemocratisation of Brazil', in Paul W. Drake and Eduardo Silva (eds.), *Elections and democratization in Latin America, 1980–1985* (San Diego, CA, 1986); Frances Hagopian, *Traditional politics and regime change in Brazil* (Cambridge, 1996) and 'The compromised consolidation. The political class in the Brazilian transition', in Scott Mainwaring, Guillermo O'Donnell and J. Samuel Valenzuela (eds.), *Issues in democratic consolidation. The new South American democracies in comparative perspective* (Notre Dame, 1992); William C. Smith, 'The political transition in Brazil: from authoritarian liberalisation and elite conciliation to democratisation', in E. Baloyra (ed.), *Comparing new democracies: dilemmas of transition and consolidation in Mediterranean Europe and the Southern Cone* (Boulder, CO, 1987); Silvio R. Duncan Baretta and John Markoff, 'Brazil's abertura: A transition from what to what?', in James M. Malloy and Mitchell A. Seligson (eds.), *Authoritarians and democrats: regime transitions in Latin America* (Pittsburgh, PA, 1987); Thomas E. Skidmore (ed.), *Television, politics, and the transition to democracy in Latin America* (Washington, DC, 1993), which includes three chapters on Brazil; Juan Linz and Alfred Stepan, *Problems of democratic transition and consolidation* (Baltimore and London, 1996), especially chapter 11; Bolívar Lamounier (ed.), *De Geisel a Collor: o balanço da transição* (São Paulo, 1990); and Eliézer Rizzo de Oliveira, *De Geisel a Collor: forças armadas, transição e democracia* (Campinas, 1994).

On the role of the Church in political liberalisation, see Mainwaring, *Catholic Church and politics*, cited earlier, Part III on the period 1974–1985 and Ralph della Cava, 'The "people's

Church”, the Vatican and *abertura*, in Alfred Stepan (ed.), *Democratizing Brazil*. On the role of the new unions, see Maria Hermínia Tavares de Almeida, ‘*Novo sindicalismo and politics in Brazil*’, in John D. Wirth, Edson de Oliveira Nunes and Thomas E. Bogenschield (eds.), *State and society in Brazil: continuity and change* (Boulder, CO, 1987) and Margaret E. Keck, ‘The new unionism in the Brazilian transition’, in Alfred Stepan (ed.), *Democratizing Brazil*.

On the formation of the Partido dos Trabalhadores, see Rachel Meneguello, *PT: a formação de um partido, 1979–1982* (São Paulo, 1989) and Margaret E. Keck, *The Workers Party and democratization in Brazil* (New Haven, CT, 1992). On the role of women’s movements, see Sonia E. Alvarez, ‘Women’s movements and gender politics in the Brazilian transition’, in Jane S. Jaquette (ed.), *The women’s movement in Latin America: feminism and the transition to democracy* (Boston, 1989), ‘Politicizing gender and engendering democracy’, in Alfred Stepan (ed.), *Democratizing Brazil*, and *Engendering democracy in Brazil: women’s movements in transition politics* (Princeton, NJ, 1990). On the role of industrialists, see Leigh A. Payne, *Brazilian industrialists and democratic change* (Baltimore and London, 1994).

On the movement for *Diretas já* (1983–4), see Gláucio Ary Dillon Soares, *Colégio Eleitoral, convenções partidárias e eleições diretas* (Petrópolis, 1984), an interesting contemporary account; A. T. Rodrigues, ‘A massa na praça: mobilização e conflito na campanha das ‘Diretas já’’, *Comunicação & Política*, vol. 1/3, 1995; and Domingos Leonelli and Dante de Oliveira, *Diretas já: 15 meses que abalaram a ditadura* (Rio de Janeiro, 2004). Gilberto Dimenstein et al., *O complot que elegeu Tancredo* (Rio de Janeiro, 1985) is a contemporary account of the final handing over of power by the military to the indirectly elected civilian candidate of the opposition in 1985. Celso Castro and Maria Celina D’Araújo (eds.), *Militares e política na Nova República* (Rio de Janeiro, 2001) consists of interviews with some of the principal military figures involved in the transition to civilian rule.

On the foreign relations of the military regime, Paulo F. Vizentini, *A política externa do regime militar brasileiro* (Porto Alegre, 1998) offers the most comprehensive account. See also two unpublished doctoral theses: Andrew Hurrell, ‘The quest for autonomy. The evolution of Brazil’s role in the international system, 1964–85’ (DPhil, Oxford University, 1986) and Shiguenoli Miyamoto, ‘Do discurso triunfalista ao pragmatismo ecumênico (geopolítica e política externa no Brasil pós-64)’ (PhD thesis, University of São Paulo, 1995) and two books by U.S. scholars: Robert Wesson, *The United States and Brazil: limits of influence* (New York, 1981) and Wayne A. Selcher, *Brazil in the international system. The rise of a middle power* (Boulder, CO, 1981). Studies on individual administrations include: Cíntia V. Souto, *A diplomacia do interesse nacional: a política externa do governo Médici* (Porto Alegre, 2004); Gino Costa, ‘Brazil’s foreign policy towards her neighbours during the Geisel years’ (unpublished PhD thesis, University of London, 1986); Letícia Pinheiro, ‘Foreign policy decision-making under the Geisel government: the president, the military and the foreign ministry’ (unpublished PhD thesis, London School of Economics and Political Science, 1994); and Maria Regina de Souza Lima, ‘The political economy of Brazilian foreign policy: nuclear policy, trade and Itaipú’ (unpublished PhD thesis, Vanderbilt University, 1986). Two works illuminate the Brazilian nuclear programme: Beatriz H. Domingues, *Reinventar a roda: a política nuclear entre 1964 e 1968* (Rio de Janeiro, 1997) and Paulo Wrobel, ‘Brazil, the non-proliferation treaty and Latin America as a nuclear weapon-free zone’ (unpublished PhD thesis, University of London, 1991). A comparative study of the foreign relations of Brazil and Argentina, and relations between them, can be found in Sônia Camargo and Juan

M. Ocampo, *Autoritarismo e democracia na Argentina e no Brasil: uma década de política exterior, 1973–1984* (São Paulo, 1988). Andrew Hurrell, 'The international dimensions of democratization in Latin America: the case of Brazil', in Laurence Whitehead (ed.), *The international dimensions of democratization* (Oxford, 1996) is an insightful study of the international dimensions of the process of political liberalisation in the second half of the period of military rule. On the foreign policy transformations that occurred with regime change, see Ricardo Sennes, *As mudanças na política externa brasileira nos anos 1980: uma potência média recém industrializada* (Porto Alegre, 2004).

4. POLITICS, 1985–2002

Maria D'Alva Kinzo and James Dunkerley (eds.), *Brazil since 1985. Politics, economy and society* (London, 2003) is a valuable, recent collection of essays on all aspects of the period from the end of military rule in 1985 to the election of Lula in 2002. See also Leslie Bethell (ed.), *Brasil: fardo do passado, promessa do futuro. Dez ensaios sobre política e sociedade brasileira* (Rio de Janeiro, 2002), essays originally published in *Daedalus*, the journal of the American Academy of Arts and Sciences, Special issue: Brazil: burden of the past, promise of the future, vol. 129/2 (2000).

On the early years of the Nova República (1985–), the Sarney administration (1985–1990), and the transition to full democracy culminating in the presidential elections of 1989, the following books were published at the time and remain valuable sources: Bolívar Lamounier and Rachel Menuegello, *Partidos políticos e consolidação democrática: o caso brasileiro* (1986); Guillermo O'Donnell and Fabio Wanderley Reis (eds.), *A democracia no Brasil: dilemas e perspectivas* (São Paulo, 1988); Lourdes Sola (ed.), *O estado da transição: política e economia na Nova República* (São Paulo, 1988); J. A. Moisés and J. A. Guilhon Albuquerque (eds.), *Dilemas da consolidação da democracia* (Rio de Janeiro, 1989); Eli Diniz, Renato Boschi and Renato Lessa (eds.), *Democracia no Brasil: dilemas da Nova República* (São Paulo, 1989); Alfred Stepan (ed.), *Democratizing Brazil: problems of transition and consolidation* (New York, 1989); and Bolívar Lamounier (ed.), *De Geisel a Collor: o balanço da transição* (São Paulo, 1990). Later studies include: Margaret E. Keck, *The Workers' Party and redemocratisation in Brazil* (New Haven, CT, 1992); Maria D'Alva Kinzo, *Radiografia do quadro partidário brasileiro* (São Paulo, 1993); Jairo Nicolau, *Multipartidarismo e democracia. Um estudo sobre o sistema partidário brasileiro (1985–94)* (Rio de Janeiro, 1996); Frances Hagopian, *Traditional politics and regime change in Brazil* (Cambridge, 1996); Juan Linz and Alfred Stepan, *Problems of democratic transition and consolidation* (Baltimore and London, 1996), chapter II on Brazil; Kurt von Mettenheim, *The Brazilian voter: mass politics in democratic transition, 1974–86* (Pittsburgh, PA, 1995); Rachel Meneguello, *Partidos e governos no Brasil contemporâneo (1985–1997)* (São Paulo, 1998); Timothy J. Power, *The political right in post authoritarian Brazil. Elites, institutions and democratisation* (University Park, PA, 2000); and Rogério Schmitt, *Partidos políticos no Brasil (1945–2000)* (Rio de Janeiro, 2000).

On the 1986 Congressional and gubernatorial elections, see Maria Tereza Sadek (ed.), *Eleições/1986* (São Paulo, 1989). On the Constituent Assembly 1987–8, see Javier Martínez-Lara, *Building democracy in Brazil. The politics of constitutional change, 1985–95* (London, 1996); Leôncio Martins Rodrigues, *Quem é quem na Constituinte. Uma análise socio-política dos partidos e dos deputados* (São Paulo, 1987); David Fleischer, 'The Constituent Assembly and the transformation strategy: attempts to shift political power in Brazil from the President

to the Congress', in Lawrence S. Graham and Robert H. Wilson (eds.), *The political economy of Brazil: public policies in an era of transition* (Austin, TX, 1990) and 'Perfil sócio-econômico e político da Constituinte', in Milton Duran (ed.), *O processo Constituinte: 1987–88* (Brasília, 1988); Maria D'Alva Gil Kinzo, 'O quadro partidário e a Constituinte', *Revista Brasileira de Ciência Política* (1989); and André Magalhães Nogueira, 'Assembleia Nacional Constituinte de 1987–8', in *DHBB*. On the 1989 presidential elections, see André Singer, *Esquerda e direita no eleitorado brasileiro. A identificação ideológica na disputas presidenciais de 1989 e 1994* (São Paulo, 1999). And on the 1990 Congressional and gubernatorial elections, see Bolívar Lamounier, *Depois da transição: democracia e eleições no governo Collor* (São Paulo, 1991).

On the Collor administration (1990–2) ending with Collor's impeachment, see Keith S. Rosenn and Richard Downes (eds.), *Corruption and political reform in Brazil: the impact of Collor's impeachment* (Miami, 1999; Portuguese translation, Rio de Janeiro, 2000) and, above all, Mario Sérgio Conti, *Notícias do Planalto: a imprensa e Fernando Collor* (São Paulo, 1999), and on the 1994 general elections, Singer, *Esquerda e direita*, cited earlier in this essay, and articles by Olavo Brasil de Lima and Leôncio Martins Rodrigues in *Dados* 38/1 (1995). Jairo Nicolau (ed.), *Dados eleitorais do Brasil (1982–1996)* (Rio de Janeiro, 1998) is an indispensable source of information on all elections between 1982 and 1996 (updated to 2004 online at <http://jaironicolau.iuperj.br>).

On the changing nature of civil–military relations under the Nova República, see Eliézer Rizzo de Oliveira, *De Geisel a Collor: forças armadas, transição e democracia* (Campinas, 1994); Jorge Zaverucha, *Rumor de sabres. Tutela militar ou controle civil? Estudo comparativo das transições democráticas no Brasil, na Argentina e na Espanha* (São Paulo, 1994) and *Fragil democracia. Collor, FHC e os militares (1990–1998)* (Rio de Janeiro, 2000); Wendy Hunter, *Eroding military influence in Brazil. Politicians against soldiers* (Chapel Hill, NC, 1997); and Celso Castro, Maria Celina D'Araújo, and Henrique Saboia (eds.), *Militares e política na Nova República* (Rio de Janeiro, 2001).

An early assessment of the two Cardoso administrations (1995–1998, 1999–2002) is Bolívar Lamounier and Rubens Figueiredo (eds.), *A era FHC: um balanço* (São Paulo, 2002). See also Mauricio Font and Anthony Peter Spanakos (eds.), *Reforming Brazil* (Lanham, MD, 2004) and Fabio Giambiagi, José Guilherme Reis and André Urani, *Reformas no Brasil: balanço e agenda* (Rio de Janeiro, 2004). A fundamental source is Fernando Henrique Cardoso's own reflections on his life (personal and intellectual) and his presidency in *The accidental president of Brazil: a memoir* (New York, 2006) and, far more substantial, *A arte da política. A história que vivi* (São Paulo, 2006).

On Brazilian democracy at the end of the twentieth century, see Kurt G. Weyland, *Democracy without equity: failures of reform in Brazil* (Pittsburgh, PA, 1996); Peter R. Kingstone and Timothy J. Power (eds.), *Democratic Brazil: actors, institutions and processes* (Pittsburgh, PA, 2000); Barry Ames, *The deadlock of democracy in Brazil: interests, identities and institutions in comparative politics* (Ann Arbor, 2001); and Luiz Werneck Vianna (ed.), *A democracia e os três poderes no Brasil* (Belo Horizonte, 2002). On the strengths and weakness of the electoral system, see Olavo Brasil de Lima Júnior (ed.), *O sistema eleitoral brasileiro: teoria e prática* (Rio de Janeiro, 1991); Jairo Nicolau, *Sistemas eleitorais* (Rio de Janeiro, 2004) and 'O sistema eleitoral de lista aberta no Brasil', University of Oxford Centre for Brazilian Studies, Working paper no. 70 (2006). On political parties: Scott P. Mainwaring, 'Brazil: weak parties, feckless democracy', in Scott Mainwaring and Timothy

R. Scully (eds.), *Building democratic institutions. Party systems in Latin America* (Palo Alto, CA, 1994) and *Rethinking party systems in the third wave of democratization. The case of Brazil* (Palo Alto, CA, 1999; Portuguese translation, 2001); Olavo Brasil de Lima Júnior (ed.), *O sistema partidária brasileiro: diversidade e tendências, 1982–1994* (Rio de Janeiro, 1997); Leôncio Martins Rodrigues, *Partidos, ideologia e composição social: um estudo das bancadas partidárias na Câmara dos Deputados* (São Paulo, 2002); and Silvana Krause and Rogério Schmitt, *Partidos e coligações no Brasil* (São Paulo, 2005). On presidentialism and executive–legislative relations, see Scott Mainwaring, ‘Multipartism, robust federalism and presidentialism in Brazil’, in Scott Mainwaring and Matthew S. Shugart (eds.), *Presidentialism and democracy in Latin America* (Cambridge, 1997) and, in particular, Argelina C. Figueiredo and Fernando Limongi, *Executivo e Legislativo na nova ordem constitucional* (Rio de Janeiro, 1999). On relations between the federal government and state governments, see Celina Souza, *Constitutional engineering in Brazil. The politics of federalism and decentralisation* (London, 1997); Fernando Luiz Abrúcio, *Os barões de federação. Os governadores e a redemocratização brasileira* (São Paulo, 1998); and David J. Samuels, *Ambition, federalism and legislative politics in Brazil* (Cambridge, 2003). Finally, on political reform, see Marcus André Melo, *Reformas constitucionais no Brasil: instituições políticas e processo decisório* (Rio de Janeiro, 2004), Leonardo Avritzer and Fátima Anastásia, *Reforma política no Brasil* (Belo Horizonte, 2006) and Jairo Nicolau and Timothy J. Power (eds.), *Instituições representativas no Brasil: balanço e reforma* (Belo Horizonte, 2007).

5. ECONOMY, 1930–1980

Marcelo de Paiva Abreu (ed.), *A ordem do progresso: cem anos de política econômica republicana* (Rio de Janeiro, 1990) has become a standard source on the economic history of the Brazilian Republic (to 1989), with special emphasis on economic policy. Other general works include Werner Baer, *The Brazilian economy. Growth and development* (5th edition, Westport, CT, 2001), Donald E. Syvud, *Foundations of Brazilian economic growth* (Palo Alto, CA, 1974), Luiz Carlos Bresser Pereira, *Development and crisis in Brazil, 1930–1983* (Boulder, CO, 1984) and Fábio Giambiagi, André Villela, Lavinia Barros de Castro and Jennifer Hermann (eds.), *Economia brasileira contemporânea, 1945–2004* (Rio de Janeiro, 2004). Raymond W. Goldsmith, *Brasil, 1850–1984: desenvolvimento financeiro sob um século de inflação* (São Paulo, 1986) is marred by some daring use of data. For instance, its use of foreign trade data denominated in domestic currency in the 1950s leads to the wrong conclusion that Brazil had trade deficits for most of the period when exactly the opposite was the case. For an analysis of Brazilian long-term growth, see Albert Fishlow, ‘Brazilian development in long term perspective’, *American Economic Review*, 70/2 (1980).

Israel Beloch and Alzira Alves de Abreu (eds.), *Dicionário histórico-bibliográfico brasileiro, 1930–1983*, 4 vols. (Rio de Janeiro, 1984) is extremely useful as a source of information on institutions and policy-makers. There is a 2001 revised edition in five volumes edited by Alzira Alves de Abreu.

Economic data for this period as a whole are to be found in Instituto Brasileiro de Geografia e Estatística, *Estatísticas do século XX* (Rio de Janeiro, 2003). It should complemented by *Anuário estatístico do Brasil*, whose annual publication was restarted in 1936, and by *Brasil em números*, an irregular publication also by Instituto Brasileiro de Geografia e Estatística. The series *Mensagem* [of the President to Congress] is of variable quality and

especially important during the Third Republic (1945–1964). In some years, such as 1949, Ministério da Fazenda, *Relatório* is an extremely useful source. Additional historical series can be found in Marcelo Abreu and Dorte Verner, *Long-term Brazilian economic growth, 1930–1994* (Paris, 1997). Cláudio Pacheco, *História do Banco do Brasil (história financeira do Brasil desde 1808 até 1951)* (Rio de Janeiro, 1979), volumes IV and V, is a useful source on the Bank of Brazil for most of the period.

The benchmark treatment of the period 1930–1945 is Celso Furtado, *Formação econômica do Brasil* (Rio de Janeiro, 1959; English translation, *The economic growth of Brazil*, Berkeley, 1963), which is a permanent source of hypotheses to be tested. A source which provides more detailed information is Annibal Villela and Wilson Suzigan, *Política do governo e crescimento da economia brasileira, 1889–1945* (Rio de Janeiro, 1973; English translation, *Government policy and economic growth in Brazil, 1889–1945*, Rio de Janeiro, 1977). A more recent and shorter treatment can be found in Marcelo de Paiva Abreu, 'Crise, crescimento e modernização autoritária: 1930–1945' in Marcelo de Paiva Abreu (ed.), *A ordem do progresso*. See also Marcelo de Paiva Abreu, *O Brasil e a economia mundial, 1930–1945* (Rio de Janeiro, 1999).

The speeches by Getúlio Vargas between 1930 and 1945 are included in *A nova política do Brasil* (11 vols., Rio de Janeiro, 1938–1945). His *Diários* (2 vols., Rio de Janeiro, 1995) are rather disappointing. Some of the books by Hélio Silva in the series *Ciclo de Vargas* include interesting primary materials on economic issues. The same applies to Edgar Carone, *A segunda república (1930–1937)* (São Paulo, 1974) and the misleadingly titled *A terceira república (1937–1945)* (São Paulo, 1976).

On coffee, the outstanding source for the 1930s is John Wilkinson Foster Rowe, *Special Memorandum no. 35. Studies in the artificial control of raw materials. Brazilian coffee* (London, 1932). Antônio Delfim Neto, *O problema do café no Brasil* (São Paulo, 1959) is a still valuable pioneering work. Edmar Bacha, 'Política brasileira do café: uma avaliação centenária', in Edmar Bacha and Robert Greenhill, *150 anos de café: Marcellino Martins & E. Johnston* (Rio de Janeiro, 1992), includes useful additional material. Carlos Manuel Peláez, 'O acordo interamericano do café e o café brasileiro durante a II Guerra Mundial' and 'Análise econômica do programa brasileiro de sustentação do café, 1906–1945: teoria, política e medição', both in Carlos Manuel Peláez (ed.), *Ensaio sobre café e desenvolvimento econômico* (Rio de Janeiro, 1973), are good sources for details on coffee policies. See, for interesting comments on the links between coffee prices and foreign exchange policies, Eugênio Gudin, *Câmbio e café* (Rio de Janeiro, 1933) and John H. Williams, 'American foreign exchange problems in Brazil, Argentina, Chile and Uruguay, 1934', reprinted in *Foreign Relations of the United States 1934. The American Republics vol. IV* (Washington, DC, 1951), pp. 390–422. See also Eliana Cardoso, 'The great depression and commodity-exporting LDCs: the case of Brazil', *Journal of Political Economy*, 89(6), 1981. Verena Stolcke, *Coffee planters, workers and wives: class conflict and gender relations in São Paulo plantations, 1850–1980* (New York, 1988) is relevant, especially on social aspects of the coffee industry until the 1970s. See Robert H. Bates, *Open economy politics. The political economy of the world coffee trade* (Princeton, NJ, 1997) for long-term competition in the world coffee market.

For the most influential interpretation on economic policy and the level of activity in the early 1930s, see Furtado, *Economic growth*, cited earlier in this essay. For an attempted criticism of the traditional interpretation, see Carlos Manuel Peláez, 'A balança comercial, a grande depressão e a industrialização brasileira', *Revista Brasileira de Economia [RBE]*, 22/1

(1968). This fuelled some controversy: see Albert Fishlow, 'Origins and consequences of import substitution in Brazil', in Luis Eugenio Di Marco (ed.), *International economics and development. Essays in honor of Raul Prebisch* (New York, 1972) and Simão Silber, 'Análise da da política econômica e do comportamento da economia brasileira durante o período 1929–1939' in Flávio Versiani and José Roberto Mendonça de Barros (eds.), *Formação econômica do Brasil: a experiência da industrialização* (Rio de Janeiro, 1977).

The reports by both Whitaker and Aranha as Ministers of Finance between 1930 and 1934 are interesting. See José Maria Whitaker, *A administração financeira do Governo Provisório de 4 de novembro de 1930 a 16 de novembro de 1931* (São Paulo, 1933), reprinted in *O milagre da minha vida* (São Paulo, 1978), and Ministério da Fazenda, *Relatório apresentado . . . pelo Ministro . . . Oswaldo Aranha. Exposição relativa ao período de 3 de novembro de 1930 à [sic] 15 de novembro de 1933* (Rio de Janeiro, 1933). Useful to put the Whitaker administration into perspective is Otto E. Niemeyer, *The Niemeyer report to the Brazilian government* (London, 1931), on which see Marcelo de Paiva Abreu, 'The Niemeyer mission: an episode of British financial imperialism in Brazil', Working Papers 10, Centre of Latin American Studies, University of Cambridge, [1973]; a fuller version appeared as 'A missão Niemeyer', *Revista de administração de Empresas*, 14/4 (1974). Artur de Souza Costa, *Panorama financeiro e econômico da República* (Rio de Janeiro, 1941) is similarly useful for the early war economy period. For economic policy during the war, see Eugênio Gudín, *Ensaio sobre problemas econômicos da atualidade* (Rio de Janeiro, 1945) and Pedro S. Malan, Regis Bonelli, Marcelo de P. Abreu and José Eduardo de C. Pereira, *Política econômica externa e industrialização no Brasil (1939/52)* (Rio de Janeiro, 1977). See also Instituto de Planejamento Econômico e Social, *A controvérsia do planejamento na economia brasileira: coletânea da polêmica Simonsen x Gudín* (Rio de Janeiro, 1978) on the Gudín–Simonsen controversy.

On monetary policy the standard references are Carlos Manuel Peláez and Wilson Suzigan, *História monetária do Brasil: análise da política, comportamento e instituições monetárias* (Rio de Janeiro, 1976) and Paulo Neuhaus, *História monetária do Brasil, 1900–1945* (Rio de Janeiro, 1975). See also, Paulo Neuhaus, 'A inflação brasileira em perspectiva histórica', *RBE* 32 (1978). On foreign exchange regimes see, United States Tariff Commission, *Economic controls and commercial policy in Brazil* (Washington, DC, 1948). See also, Marcelo de Paiva Abreu, *O Brasil e a economia mundial, 1930–1945*, cited earlier in this essay, chapters 4 and 7, and Wilson Suzigan, 'Política cambial brasileira, 1889–1946', *RBE* 25/3 (1971). For foreign debt matters, see Marcelo de Paiva Abreu, 'On the memory of bankers: Brazilian foreign debt, 1824–1943', *Political Economy*, 4/1 (1988) and 'Brazil as a debtor, 1824–1931', *Economic History Review*, second series, 59/4 (2006). For Brazil's experience as a British creditor in the 1940s, see Marcelo de Paiva Abreu, 'Brazil as a creditor: sterling balances, 1940–1952', *Economic History Review*, second series, 43/3 (1990). Data on foreign debt can be found in several of the volumes of the series *Finanças do Brasil*, published by Ministério da Fazenda, under the direction of Valentim Bouças. See Duncan McDowall, *The Light: Brazilian Traction, Light and Power Company Limited, 1899–1945* (Toronto, 1988) for the history of the most important public utility operator in Brazil.

On foreign economic relations, see a number of works by Marcelo de Paiva Abreu: *O Brasil e a economia mundial*, cited earlier; 'Argentina and Brazil during the 1930s: the impact of British and American international economic policies', in Rosemary Thorp (ed.), *Latin America in the 1930s. The role of the periphery in world crisis* (London, 1984); 'Anglo-Brazilian economic relations and the consolidation of American preeminence in Brazil: 1930–1945'

in Christopher Abel and Colin Lewis (eds.), *Latin America, economic imperialism and the state* (London, 1985). For contrasting views, see Gerson Moura, *Autonomia na dependência: A política externa brasileira de 1935 a 1942* (Rio de Janeiro, 1980) and Roberto Gambini, *O duplo jogo de Getúlio Vargas: influência americana e alemã no Estado Novo* (São Paulo, 1977). See also Stanley Hilton, *Brazil and the Great Powers, 1930–1939: the politics of trade rivalry* (Austin, TX, 1978).

On commercial policy and industrialisation, see Warren Dean, *The industrialization of São Paulo, 1880–1945* (Austin, TX, 1969); Boris Fausto, *A revolução de 1930: historiografia e história* (São Paulo, 1970); Affonso B. de Mello, *Política comercial do Brasil* (Rio de Janeiro, 1933); Abreu, *O Brasil e a economia mundial*, cited earlier, chapters 3 and 5. On import substitution industrialisation, see Roberto Simonsen, *Evolução industrial do Brasil e outros estudos* (São Paulo, 1973); Furtado, *Formação*, cited earlier; João Manuel Cardoso de Mello, *O capitalismo tardio* (São Paulo, 1982); Fishlow, 'Origins and consequences', cited earlier. For a careful reconstruction of a reliable series of capital goods imports, see Wilson Suzigan, *Indústria brasileira: origem e desenvolvimento* (São Paulo, 1986). On the links between coffee and industry, see also Sérgio Silva, *Expansão cafeeira e origens da indústria no Brasil* (São Paulo, 1976). For a long-term view on the relationship between market power in the coffee markets and high tariffs, see Marcelo de Paiva Abreu and Afonso S. Bevilacqua, 'Brazil as an export economy, 1880–1930', in Enrique Cardenas, José Antonio Ocampo and Rosemary Thorp, *An economic history of twentieth-century Latin America*, Vol. I: *The export age* (Basingstoke, 2000).

On agriculture generally, see Tamás Szmerecsányi, 'O desenvolvimento da produção agropecuária (1930–1970)', in *HGCB III*, vol. 4 and essays 2 and 3 of Antônio Barros de Castro, *Sete ensaios sobre a economia brasileira*, vol. I (Rio de Janeiro, 1969). On sugar, see Tamás Szmerecsányi, 'Growth and crisis of the Brazilian Sugar Industry, 1914–39', in Bill Albert and Adrian Graves (eds.), *The world sugar economy in war and depression, 1914–40* (London, 1988).

On industry, see chapter 4 of Wilson Suzigan, *Indústria brasileira: origem e desenvolvimento* (São Paulo, 1986). On the steel industry, see Werner Baer, *The development of the Brazilian steel industry* (Nashville, TN, 1969). See also Carlos Manuel Peláez, *História da industrialização brasileira* (Rio de Janeiro, 1972). Geraldo Mendes Barros, *Guilherme Guinle 1882–1960: ensaio biográfico* (Rio de Janeiro, 1982) is interesting on his role in the building of Volta Redonda. Stanley Stein, *The Brazilian cotton manufacture* (Cambridge, MA, 1957) is a brilliant monograph on the textile industry. See also Stephen H. Haber, 'Business enterprise and the great depression in Brazil: a study of profits and losses in textile manufacturing', *Business History Review*, 66/2 (1992).

State-building and institutional developments have been treated by Luciano Martins, *Pouvoir et développement économique: formation et évolution des structures politiques au Brésil* (Paris, 1976) and Maria do Carmo C. de Souza, *Estado e partidos políticos no Brasil (1930 a 1964)* (São Paulo, 1976). United States Tariff Commission, *Economic controls*, cited earlier, is useful for detailed information on regulatory agencies. See also Eli Diniz, *Empresário, estado e capitalismo no Brasil, 1930–1945* (Rio de Janeiro, 1978), John D. Wirth, *The politics of Brazilian development, 1930–1954* (Palo Alto, CA, 1970); Stanley Hilton, 'Military influence on Brazilian economic policy, 1930–1945', *HAHR*, 53/1 (1973) and 'Vargas and Brazilian economic development, 1930–45: a re-appraisal of his attitudes towards industry and planning', *Journal of Economic History*, 35/4 (1975); Sônia Draibe, *Rumos e metamorfoses: estado*

e industrialização no Brasil, 1930–1960 (Rio de Janeiro, 1985); Pedro Dutra Fonseca, *Vargas: o capitalismo em construção* (São Paulo, 1987). The two latter publications also cover the second Getúlio Vargas period in the early 1950s.

Regional issues have been covered by Antônio Barros de Castro in essays 4 and 6 of *Sete ensaios sobre a economia brasileira*, vol. II (Rio de Janeiro, 1971), David Denslow, 'A origem da desigualdade regional no Brasil', *Estudos Econômicos* (1973) and Wilson Cano, *Raízes da concentração industrial em São Paulo* (2nd edition, São Paulo, 1981). There is also a useful triad of books on three important Brazilian states covering the 1930s until the Estado Novo: John D. Wirth, *Minas Gerais in the Brazilian federation, 1889–1937* (Palo Alto, CA, 1977); Joseph L. Love, *Rio Grande do Sul in the Brazilian federation, 1889–1937* (Palo Alto, CA, 1980); and Robert M. Levine, *Pernambuco in the Brazilian federation, 1889–1937* (Palo Alto, CA, 1978).

Economic data for this period, besides sources cited in the general section are to be found in a defunct and very useful publication of Ministério da Fazenda. Serviço de Estatísticas Econômicas e Financeiras do Tesouro Nacional, *Quadros estatísticos 1928–1935 [1930–1937, 1932–1939, 1936–1945]* (Rio de Janeiro, 1936–1947) For data on the level of activity and on gross domestic product deflator and other prices, see Cláudio Haddad, *Crescimento do produto real brasileiro, 1900–1947* (Rio de Janeiro, 1978) and the slight revisions in 'Crescimento econômico no Brasil, 1900–76' in Paulo Neuhaus (ed.), *Economia brasileira: uma visão histórica* (Rio de Janeiro, 1980).

On economic policy during the Dutra administration (1946–51), see Fishlow, 'Origins and consequences of import substitution in Brazil', cited earlier, and also his unpublished paper, 'Foreign trade regimes and economic development: Brazil' (University of California at Berkeley, 1975) and Pedro S. Malan et al., *Política econômica externa e industrialização no Brasil (1939/52)*, also cited earlier; D. Huddle, 'Balanço de pagamentos e controle de câmbio no Brasil: diretrizes, políticas e história', in Versiani and Mendonça de Barros (eds.), *Formação econômica do Brasil*, cited above. Sérgio Besserman Vianna, 'Política econômica externa e industrialização: 1946–1951', in Abreu (ed.), *Ordem do progresso* is a useful summary of economic policy under Dutra. Raúl Prebisch, *The economic development of Latin America and its principal problems* (Lake Success, NY, 1950) was important as a part of the background for the economic debate in the 1950s. Roberto Campos, *A lanterna na popa: memórias* (2nd revised edition, Rio de Janeiro, 1994) is a most interesting, if not always accurate, book of memoirs of a civil servant concerned with economic affairs mostly in the 1950s and 1960s.

From the late 1940s Brazilian and U.S. government documents stressing economic planning and/or monetary stabilisation became numerous. The first U.S. document of this kind was the Abbink report published as *Report of the Joint Brazil–United States Technical Commission* (Washington, DC, 1949). For the translation into Portuguese and some critical remarks, see Octávio Gouvêa de Bulhões, *À margem de um relatório* (Rio de Janeiro, 1950). For the Salte Plan, see mimeo versions of *The Salte Plan: Alimentation Sector*, 5 vols. (Rio de Janeiro, 1948); *The Salte Plan: Health Sector* (Rio de Janeiro, 1948); *The Salte Plan: Transport Sector* (Rio de Janeiro, 1948); and *The Salte Plan: Message, Bill, Financial Scheme and Report of the Inter-Party Committee* (Rio de Janeiro, 1948). See also, Presidência da República. *Plano Salte. Relatório apresentado pelo Administrador Geral ao Excelentíssimo Senhor Presidente da República, sobre as operações do Plano Salte de 1949 a 1951*

[and 1952] (Rio de Janeiro, 1953, 1954). See also, Rômulo de Almeida, 'Experiência brasileira de planejamento, orientação e controle da economia', *Estudos Econômicos*, 1/2, 1950.

The essential source for the second Getúlio Vargas period is Sérgio Besserman Vianna, *Política econômica no segundo governo Vargas (1951–1954)* (Rio de Janeiro, 1987). A shorter treatment centered on economic policy is Sérgio B. Vianna, 'Duas tentativas de estabilização: 1951–1955', in Abreu (ed.), *Ordem do progresso*, cited above. See also, Celso Lafer (ed.) *Horácio Lafer: discursos parlamentares* (Brasília, 1988); Oswaldo Aranha, *Política econômica e financeira* (Rio de Janeiro, 1954); Maria Celina S. d'Araújo, *O segundo governo Vargas, 1951–1954. Democracia, partidos e crise política* (Rio de Janeiro, 1982); and Carlos Lessa and José L. Fiori, 'Relendo a política econômica: as falácias do nascimento popular do segundo Vargas', *Texto para discussão* no. 30, Instituto de Economia Industrial, UFRJ (Rio de Janeiro, 1983).

On the multiple exchange regimes, see Alexandre Kafka, 'The Brazilian exchange auction system', *Review of Economics and Statistics*, 38/3 (1956); Eugênio Gudín, 'Multiple exchange rates: the Brazilian experience', *Economia Internazionale* 9/3 (1956); Antônio S. Rio and Henrique C. Gomes, 'Sistema cambial: bonificações e ágios', in Versiani and Mendonça de Barros (eds.), *Formação*, cited earlier; Mário Henrique Simonsen, *Os controles de preços na economia brasileira* (Rio de Janeiro, 1961); Fishlow, 'Foreign trade regimes and economic development', cited earlier; Lincoln Gordon and Engelbert L. Grommers, *United States manufacturing investment in Brazil, 1946–1960* (Cambridge, MA, 1962).

On economic development plans, see United States, Foreign Operations Administration, Institute of Inter-American Affairs, *Report of the Joint Brazil–United States Economic Development Commission* (Washington, DC, [1954]) and *Brazilian Technical Studies* (Washington, DC, 1955). Medeiros Lima, *Petróleo, energia elétrica, siderurgia e a luta pela emancipação* (Rio de Janeiro, 1975) is a useful treatment of the influence of Jesus Soares Pereira, one of the most important economic advisers of Getúlio Vargas. For oil policy, see Mário Victor, *A batalha do petróleo brasileiro* (Rio de Janeiro, 1970). Getúlio Vargas's speeches in his second government were published in *O governo trabalhista no Brasil* (4 vols., Rio de Janeiro, 1952–1969).

On economic policy during Café Filho's few months in government (1954–1955), see the sixth part of José M. Whitaker, *O milagre de minha vida* (São Paulo, 1978). The best scholarly treatment is Demosthenes Madureira de Pinho Netto, 'O interregno Café Filho', in Abreu (ed.), *Ordem do progresso*, cited above, a summary of 'Política econômica no interregno Café Filho' (unpublished MA dissertation, Pontifical Catholic University, Rio de Janeiro, 1986).

For economic policy during the Kubitschek years (1956–1961), see [Carlos Lessa], 'Fifteen years of economic policy in Brazil', *Economic Bulletin of Latin America*, 9/2, (1964); Antonio Cláudio Sochaczewski, 'Financial and economic development of Brazil, 1952–1968' (unpublished PhD thesis, University of London, 1980); Luiz Orenstein and Antonio Cláudio Sochaczewski, 'Democracia com desenvolvimento: 1956–1961', in Abreu (ed.), *Ordem do progresso*, cited earlier; and Maria Antonieta Leopoldi, 'Crescendo em meio à incerteza: a política econômica do governo JK (1956–1960)', in Angela de Castro Gomes (ed.), *O Brasil de JK* (Rio de Janeiro, 1991) and Marcelo de Paiva Abreu, '1944–1973: Crescimento rápido e limites do modelo autárquico', in Bolívar Lamounier, Dionísio Dias Carneiro and Marcelo de Paiva Abreu, *50 anos de Brasil. 50 anos de Fundação Getúlio Vargas* (Rio de Janeiro, 1994).

The most important economic planning document is Presidência da República. Conselho de Desenvolvimento, *Programa de Metas* (3 vols., Rio de Janeiro, 1958). Grupo Misto BNDE-CEPAL, *Análise e projeções do desenvolvimento econômico* (Rio de Janeiro, 1957) was an extremely influential work. For the failed stabilisation effort of 1958–1959, see Ministério da Fazenda, *Programa de Estabilização Monetária para o período de setembro de 1958 a dezembro de 1959* (Rio de Janeiro, 1959). On the Programa de Metas, see Celso Lafer, ‘The planning process and the political system of Brazil: A study of Kubitschek’s target plan’ (PhD thesis, Cornell University, 1970), published as *JK e o programa de metas* (Rio de Janeiro, 2002), and ‘O planejamento no Brasil: observação sobre o Plano de Metas’, in Betty Mindlin Lafer (ed.), *Planejamento no Brasil* (São Paulo, 1970). Lucas Lopes, *Memórias do desenvolvimento* (Rio de Janeiro, 1992) and Autran Dourado, *Gaiola aberta* (Rio de Janeiro, 2000) are essential to understand the ambiguities of Kubitschek.

For the sequence of economic programmes in the 1961–1963 period, see Clemente Mariani Bittencourt, *A situação financeira do país e a Instrução no. 204. Exposição do Ministro da Fazenda Dr. Clemente Mariani Bittencourt à Câmara dos Deputados* (Rio de Janeiro, 1961); Conselho de Ministros, *Programa de governo: bases [e] análise da situação econômica e social do Brasil* (Brasília, 1961); Presidência da República. *Plano Trienal de Desenvolvimento Econômico e Social. 1963–1965* (Rio de Janeiro, 1963).

The best recent treatment of the crisis in the early 1960s is Mário M. C. Mesquita, ‘1961–1964: A política econômica sob Quadros e Goulart’ (unpublished MA dissertation, Pontifical Catholic University of Rio de Janeiro, 1992). The best earlier treatment was by John R. Wells: ‘Growth and fluctuations in the Brazilian manufacturing sector during the 1960s and early 1970s (unpublished PhD thesis, Cambridge University, 1977). Marcelo de Paiva Abreu, ‘Estagnação, inflação e ruptura: 1961–1964’, in Abreu (ed.), *Ordem do progress*, cited earlier, is a useful summary. See also, André Lara Resende, ‘A política brasileira de estabilização: 1963–68’, *Pesquisa e Planejamento Econômico (PPE)*, 12/3 (1982); Roberto Macedo, ‘Plano Trienal de Desenvolvimento Econômico e Social’, in Lafer (ed.), *Planejamento*, cited earlier; Nathaniel H. Leff, ‘Import constraints and development: causes of the recent decline of Brazilian economic growth’, *Review of Economics and Statistics*, 49/4 (1967), and José Serra, ‘Ciclos e mudanças estruturais na economia brasileira do pós-guerra’, in Luiz Gonzaga M. Belluzzo and Renata Coutinho (eds.), *Desenvolvimento capitalista no Brasil: ensaios sobre a crise* (São Paulo, 1981). For contemporary criticisms of the Plano Trienal, see Mário Alves and Paul Singer, *Análise do Plano Trienal* (Rio de Janeiro, 1968). For a flavour of the rather primitive views on the role of foreign capital in the early 1960s, see Sérgio Magalhães, Francisco Mangabeira, Roland Corbisier, Barbosa Lima Sobrinho and Aristóteles Moura, *A questão da remessa de lucros* (Rio de Janeiro, 1962). See, for the alternative view, Roberto Campos, *Economia, planejamento e nacionalismo* (Rio de Janeiro, 1963). The autobiography of Celso Furtado, although rather guarded in the analysis of crucial moments of his public life, is useful especially in relation to the late 1950s and early 1960s: *Obra autobiográfica* (São Paulo, 1997).

On debates concerning inflation in the 1950s and early 1960s, see Roberto de Oliveira Campos, ‘Two views of inflation in Latin America’ and David Felix, ‘An alternative view of the ‘monetarist-structuralist’ controversy’, both in Albert O. Hirschman (ed.), *Latin American issues: essays and comments* (New York, 1961); Inácio Rangel, *A inflação brasileira* (Rio de Janeiro, 1963); and Francisco Lopes, ‘Teoria e política da inflação brasileira: uma

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On industry, besides the material on foreign exchange regimes, see [Maria da Conceição Tavares], 'Growth and decline of the process of import substitution in Brazil', *Economic Bulletin for Latin America*, 9/1 (1964); Arthur Candal, 'A industrialização brasileira: diagnóstico e perspectivas', in Versiani e Barros (eds.), *Formação* cited above; Nathaniel Leff, *The Brazilian capital goods industry, 1929–1964* (Cambridge, MA, 1968).

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Nacional de Economia, *Exposição geral da situação econômica do Brasil*, especially for the early 1960s, as well as *Revista do Conselho Nacional de Economia* and *Conjuntura Econômica*. For the Kubitschek years, see Conselho do Desenvolvimento, *Relatório*.

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For the shift in anti-inflationary policies, Antonio Delfim Neto, '1967/1968: política econômica e financeira do governo' (São Paulo, 1968), mimeo; 'Análise do comportamento recente da economia brasileira: diagnóstico' (São Paulo, 1967), mimeo. For the earlier inflationary views of Antonio Delfim Neto, see Antonio Delfim Neto, Affonso Celso Pastore, Pedro Cipollari and Eduardo Pereira de Carvalho, *Alguns aspectos da inflação brasileira* (São Paulo, 1965).

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II Plano Nacional de Desenvolvimento (PND), 1975–1979 (Brasília, 1974). In 1967, many volumes of a long-term *Plano Decenal de Desenvolvimento Econômico e Social* came to light covering every aspect of the Brazilian economy. Many of the volumes include useful background material. Mário Henrique Simonsen, *Brasil 2001* (Rio de Janeiro, 1969) and *Brasil 2002* (Rio de Janeiro, 1972) are two rather *ufanista*, but useful, collections of essays which reflect the optimism of the ‘miracle years’.

For the defence of policies adopted under Geisel (1974–79), see Geisel’s own reactions in Maria Celina D’Araújo and Celso Castro, *Ernesto Geisel* (Rio de Janeiro, 1997), and a series of writings by João Paulo dos Reis Velloso: parts 3 and 4 of *O último trem para Paris* (Rio de Janeiro, 1986); ‘Simonsen no governo’, *Jornal do Brasil*, 16 February 1997 and ‘Construindo Geisel’, *Insight Inteligência* 2(7), 1999. For the growth achievements under Geisel, see the official view in IPEA, *Brasil: 14 anos de revolução* (Brasília, 1977) and the laudatory Antônio Barros de Castro and Francisco Pires de Souza, *A economia brasileira em marcha forçada* (Rio de Janeiro, 1985). See also, Jorge Chami Batista, *Debt and adjustment policies in Brazil* (Boulder, CO, 1992). For critical views, see the writings of Dionísio Dias Carneiro: ‘Introdução: dificuldades no reajuste do modelo’, in Dionísio Dias Carneiro (ed.), *Brasil: dilemas de política econômica* (Rio de Janeiro, 1977); ‘Crise e esperança: 1974–1980’, in Abreu (ed.), *Ordem do progresso*, cited earlier, and ‘1974–94: os desafios da estabilização postergada’, in Lamounier, Carneiro and Abreu, *50 anos de Brasil*. See also the *Jornal do Brasil* supplement ‘Simonsen: o mago da economia’, 3 March 1996, for Simonsen’s views on his stand in the 1970s. See also Edmar Bacha, ‘Choques externos e perspectivas de crescimento: O caso do Brasil, 1973–1979’, *PPE*, 14/3 (1984) and ‘Issues and evidence on recent Brazilian economic growth’, *World Development* 5/1–2 (1977); Albert Fishlow, ‘A tale of two presidents: the political economy of crisis management’ and Edmar Bacha and Pedro Malan, ‘Brazil’s debt: from the miracle to the Fund’, in Alfred Stepan (ed.), *Democratizing Brazil: problems of transition and consolidation* (New York, 1989); Pedro Malan and Regis Bonelli, ‘The Brazilian economy in the seventies: old and new developments’, *World Development*, 5/1–2 (1977); Regis Bonelli and Pedro Malan, ‘Os limites do possível: notas sobre balanço de pagamentos e indústria nos anos 70’, *PPE*, 6/2 (1976); Albert Fishlow, ‘A economia política do ajustamento brasileiro aos choques do petróleo: Uma nota sobre o período 1974–84’, *PPE*, 16/3 (1986). On financial scandals in the 1970s and early 1980s, see José Carlos de Assis, *A chave do tesouro: anatomia dos escândalos financeiros. Brasil 1974–1983* (São Paulo, 1983).

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On wage policies, see Lívio Carvalho, 'Políticas salariais brasileiras no período 1964–1981', *RBE*, 36/1 (1982). The main contemporary writings on income distribution are by Carlos Geraldo Langoni, *Distribuição de renda e desenvolvimento econômico do Brasil* (Rio de Janeiro, 1973) and Albert Fishlow, 'Brazilian size distribution of income', *American Economic Review*, 62/2, (1972). Ricardo Tolipan and A.C. Tinelli (eds.), *A controvérsia sobre distribuição de renda e desenvolvimento*, (Rio de Janeiro, 1975) includes many important articles. See also, Bacha, *Os mitos de uma década*, cited above, and Edmar Bacha and Lance Taylor, 'Brazilian income distribution in the 1960s: "facts", model results, and the controversy', in Lance Taylor, Edmar Lisboa Bacha, Eliana Anastasia Cardoso and Frank J. Lysy, *Models of growth and distribution for Brazil* (New York, 1980). See also, the more recent Ricardo P. de Barros and Rosângela Mendonça, 'A evolução do bem-estar, pobreza e desigualdade no Brasil ao longo das últimas três décadas –1960/90', *PPE*, 25/1 (1995).

On the long-term evolution of living standards, see John R. Wells, 'Industrial accumulation and living standards in the long-run: the São Paulo industrial working class, 1930–75', Parts I and II, *Journal of Development Studies*, 19/2 and 19/3 (1983). There are several interesting essays on social issues in Edmar Bacha and Herbert S. Klein (eds.), *Social change in Brazil, 1945–1985: the incomplete transition* (Albuquerque, NM, 1989). See also Guy Pferffeman and Richard Webb, 'Pobreza e distribuição de renda no Brasil: 1960–1980', *RBE*, 37/2 (1983).

For economic data on the 1964–1980 period: Banco Central do Brasil, *Boletim and Relatório* and the monthly *Conjuntura Econômica*. For structural change 1960–1980, see

Werner Baer, Manuela R. da Fonseca and Joaquim M. Guilhoto 'Structural changes in Brazil's industrial economy, 1960–80', *World Development*, 15/2 (1987).

6. ECONOMY, 1980–1994

The number of relevant publications on the Brazilian economy since 1980 is immense. This, together with limitations of space, constraints related to the availability of material in English and the existence of works of a more general scope which incorporate the findings of more specialised literature, means that many worthwhile contributions have not been explicitly mentioned. The focus here is on economic policy, a reflection of problems which have dominated Brazil's economic agenda in the period. Readers should also consult the bibliographical essay on the period 1930–1980 as it contains material which is relevant for the later period and not all titles have been repeated here.

The debt in Chapter 6 to Dionísio Carneiro and Eduardo Modiano is obvious. Their chapters, Dionísio Dias Carneiro and Eduardo Marco Modiano, 'Ajuste externo e desequilíbrio interno: 1980–1984' and Eduardo Marco Modiano, 'A ópera dos três cruza-dos: 1985–1989', in Marcelo de Paiva Abreu (ed.), *A ordem do progresso. Cem anos de política econômica republicana* (Rio de Janeiro, 1990) and Dionísio Dias Carneiro, '1974–1994: os desafios da estabilização postergada' in Bolívar Lamounier, Dionísio Dias Carneiro and Marcelo de Paiva Abreu, *50 anos de Brasil. 50 anos de Fundação Getúlio Vargas* (Rio de Janeiro, 1994) have been extensively used. A standard general source in English for the Brazilian economy is Werner Baer, *The Brazilian economy: growth and development* (5th edition, Westport, CT, 2001). See also Fábio Giambiagi and Maurício Mesquita Moreira (eds.), *A economia brasileira nos anos 90* (Rio de Janeiro, 1990) and, for public finance aspects, Fábio Giambiagi and Ana Cláudia Além, *Finanças públicas. Teoria e prática no Brasil* (2nd edition, Rio de Janeiro, 2000).

Data sources on the Brazilian economy include prominently Instituto Brasileiro de Geografia e Estatística (IBGE), *Estatísticas do Século XX* (Rio de Janeiro, 2003) and the enclosed CD-ROM. This is also available at www.ibge.gov.br. See also www.ipea.gov.br and www.bcb.gov.br for statistics presented by the Ministry of Planning (IPEA) and the Brazilian Central Bank. The Central Bank's *Relatório* is a good source on economic policy for the period. *Brasil-Panorama Econômico*, a discontinued series published by the Central Bank between 1983 and 1996, is also useful. Data on trade and tariffs can be obtained in the site of the Ministry of Development, Industry and Trade at www.mdic.gov.br. For foreign trade indices, see www.funcex.com.br.

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Brazil and Israel (Cambridge, MA, 1985); Pérsio Arida, 'Reajuste salarial e inflação', *PPE*, 12/2 (1982); Francisco L. Lopes, *O choque heterodoxo: combate à inflação e reforma monetária* (Rio de Janeiro, 1986) and *O desafio da hiperinflação* (Rio de Janeiro, 1989); Eduardo Marco Modiano, *Da inflação ao cruzado: A política econômica no primeiro ano da Nova República* (Rio de Janeiro, 1986), and 'The cruzado first attempt: the Brazilian stabilization program of February 1986' in Michael Bruno, Guido Di Tella, Rudiger Dornbusch and Stanley Fisher (eds.), *Inflation stabilization: Argentina, Israel, Brazil, Bolivia and Mexico* (Cambridge, MA, 1988); Eduardo Marco Modiano, *Inflação, inércia e conflito* (Rio de Janeiro, 1988); Edmar Bacha, 'Vicissitudes of recent stabilization attempts in Brazil and the IMF alternative' in John Williamson (ed.), *IMF conditionality* (Washington, DC, 1983), 'Choques externos e perspectivas de crescimento: o caso do Brasil', *PPE*, 14/3 (1984), and 'Moeda, inércia e conflito: Reflexões sobre políticas de estabilização', *PPE*, 18/1 (1988); Luiz Carlos Bresser Pereira, 'Brazil's inflation and the Cruzado Plan, 1985–1988', in Pamela S. Falk (ed.), *Inflation: are we next? Hyperinflation and solutions in Argentina, Brazil and Israel* (Boulder, CO, 1990); and Luiz Carlos Bresser Pereira and Yoshiaki Nakano, *The theory of inertial inflation* (Boulder, CO, 1987).

See also Carlos Alberto Primo Braga, Joaquim Elói Cirne de Toledo, José Paulo Zeetano Chahad, Juarez Caetano Baldini Rizzieri and Eduardo Pereira de Carvalho (eds.), *O Plano Cruzado na visão dos economistas da USP* (São Paulo, 1986), Ricardo Carneiro (ed.), *Política econômica da Nova República* (Rio de Janeiro, 1986) and Paulo Rabello de Castro and M. Ronci, 'Sixty years of populism in Brazil' in R. Dornbusch and S. Edwards (eds.), *The macroeconomics of populism in Latin America. A National Bureau of Economic Research Conference Report* (Chicago and London, 1991).

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7. ECONOMY, 1994–2004

Given the period covered by this chapter, the essay has been limited to a list of references.

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8. BRAZILIAN SOCIETY, 1930–2000

The most important sources of statistical information on Brazilian society are the various censuses and annual surveys of the Instituto Brasileiro de Geografia e Estatística (IBGE). Regular updates are available online at <http://www.ibge.gov.br/>. The IBGE has also brought together the various twentieth-century editions of *Anuário Estatístico Brasileiro*, along with some useful thematic essays, in a CD-ROM *Estatísticas do Século XX* (Rio de Janeiro, 2003).

The key general work on Brazilian population and development remains Thomas W. Merrick and Douglas B. Graham, *Population and economic development in Brazil, 1800 to the present* (Baltimore, 1979; Portuguese translation, Rio de Janeiro, 1981). Unfortunately, however, it only covers trends up to 1970. But see also Merrick, 'Population since 1945', in Edmar L. Bacha and Herbert S. Klein (eds.), *Social change in Brazil, 1945–1985: the incomplete transition* (Albuquerque, NM, 1989; originally published in Portuguese, 1986). On the demographic dimension of social inequality, see Charles H. Wood and Jose Alberto Magno de Carvalho, *The demography of inequality in Brazil* (Cambridge, 1988). Of special interest are chapter 4 (on income inequality and life expectancy), chapter 6 (on racial inequality and infant mortality) and chapter 7 (on fertility decline). Data in this work, however, only covers the period up to the 1980s.

The effects of international immigration upon Brazilian population growth are discussed in Giorgio Mortara, 'Os fatores demográficos do crescimento das populações americanas nos

últimos cem anos', in Mortara, *Pesquisas sobre populações americanas* (Rio de Janeiro, 1947) and 'O aumento da população do Brasil entre 1872 e 1940', in Mortara, *Estudos de estatística teórica e aplicada. Pesquisas sobre o desenvolvimento da população do Brasil* (Rio de Janeiro, 1951); and J. Clevelario Júnior, 'A participação da imigração na formação da população brasileira', *Revista Brasileira de Estudos de População*, 14/1-2 (1997). For the trajectory of migration waves to Brazil from 1900 to 1968, see IBGE, *Estatísticas históricas do Brasil: séries econômicas, demográficas e sociais de 1550 a 1988*. 2. ed. rev. (Séries estatísticas retrospectivas: quadros retrospectivos, v. 1, Rio de Janeiro, 1990) table 2.2.4.1, p. 71. For the period 1884 to 1951 (by nationality), see IBGE, *Anuário Estatístico do Brasil* (Rio de Janeiro, 1953), Appendix, p. 489. On the issue of immigration and nationalism during the Estado Novo, see the chapters by Giralda Seyferth, 'Os imigrantes e a campanha de nacionalização do Estado Novo', and Marcos Chor Maio, 'Qual anti-semitismo? Relativizando a questão judaica no Brasil dos anos 30', in Dulce Pandolfi (ed.), *Repensando o Estado Novo* (Rio de Janeiro, 1999). On internal migratory movements, the classic account is Douglas H. Graham and Sergio Buarque de Holanda Filho, *Migration, regional and urban growth and development in Brazil: a selective analysis of the historical record, 1872-1970* (São Paulo, 1971; Portuguese translation, 1984).

On the evolution of infant mortality, see C. Simões, 'Transições da mortalidade infantil no Brasil e as mudanças nos padrões de mortalidade por causas e idade' (unpublished doctoral thesis, Universidade Federal de Minas Gerais, 1997). An important contribution is C. E. Ferreira and L. P. O. Flores, 'As dimensões da mortalidade infantil em São Paulo', *Revista Brasileira de Estudos de População*, 4/1 (1987). On the increase of mortality rates among young males in recent decades, especially in large cities, see F. R. Albuquerque and J. Oliveira, 'Aspectos gerais da evolução dos óbitos por causas externas no Brasil', in IBGE, *Componentes da dinâmica demográfica brasileira: textos selecionados* (Textos para Discussão, n.85, Rio de Janeiro, 1996) and C. E. Ferreira and L. L. Castiñeras 'O rápido aumento da mortalidade dos jovens adultos em São Paulo: uma tendência trágica', *São Paulo em Perspectiva*, 10/3 (1996). On regional differences in life expectancy at birth, see S. L. Curtis and J. W. McDonald, 'Birth spacing and infant mortality in Brazil', *Journal of Biosocial Science*, 23 (1991); C. Wood and P. Lovell, 'Racial inequality and child mortality in Brazil', *Social Forces*, 70 (1992); and N. Sastry 'Community characteristics, individual and household attributes and child survival in Brazil', *Demography*, 33/2 (1996).

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Peter McDonough and Amaury de Souza, *A política populacional no Brasil* (Rio de Janeiro, 1984) is a pioneering discussion of population policy in Brazil based on a 1973 public-opinion survey. The Brazilian debates over family planning programmes in the period 1960–1985 are discussed in Maria Isabel Baltar Rocha, 'O parlamento e a questão demográfica: um estudo do debate sobre controle da natalidade e planejamento familiar no Congresso nacional', Núcleo de Estudos de População, UNICAMP, Campinas *Textos NEPO* 13 (December, 1987). On the same subject, but also covering the pre-1965 period, see Dêlcio da Fonseca Sobrinho, *Estado e população: uma história do planejamento familiar no Brasil* (Rio de Janeiro, 1993).

Eli Diniz, 'Globalização, ajuste e reforma do estado: um balanço da literatura recente', *Revista Brasileira de Informações em Ciências Sociais BIB*, 45, (1998) is a useful survey of state-society relations in Brazil in recent years. W. Bazzanella, *Estratificação e mobilidade social no Brasil: fontes bibliográficas* (Rio de Janeiro, Centro Brasileiro de Pesquisas Educacionais, 1956) is an important source for the study of Brazil's traditional social structure before the Second World War. An interesting picture of Brazil's class structure in the immediate postwar period based on the 1950 census of the economically active population (one that assumes that heads of family and their dependents are in the same class) is L. A. Costa Pinto, 'As classes sociais no Brasil – padrão tradicional e mudanças recentes', *Revista Brasileira de Ciências Sociais*, 3/1 (1963).

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There is extensive bibliography on industrialisation and the development of the Brazilian working class. An extremely useful little book is Tânia Regina de Luca, *Indústria e trabalho na história do Brasil* (São Paulo, 2001). On the automobile sector in the paulista ABC, see John Humphrey, *Capitalist control and workers' struggle in the Brazilian auto industry* (Princeton, NJ, 1982; Portuguese translation, 1982). See also Barbara Weinstein, *For social peace in Brazil: industrialists and the remaking of the working class in São Paulo, 1920–1964* (Chapel Hill, NC, 1996; Portuguese translation, 2000); and Ricardo Antunes, *Adeus ao trabalho? Ensaio sobre as metamorfoses e a centralidade do mundo do trabalho* (São Paulo, 1995), which deals with transformations in recent decades. The formation of the working class in São Paulo is the subject of Joel Wolfe, *Working women, working men. São Paulo and the rise of*

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On agriculture and rural society, see David Goodman, 'Rural economy and society', in Bacha and Klein (eds.), *Social change in Brazil* cited earlier. See also Francisco Graziano, *A tragédia da terra. O fracasso da reforma agrária no Brasil* (São Paulo, 1991). On rural workers' movements, see Shepard Forman 'Disunity and discontent: a study of peasant political movements in Brazil', *JLAS*, 3/1 (1971). See also Elisa M. P. Reis, 'Brazil, one hundred years of the agrarian question', *International Social Sciences Journal*, 42/2 (1990).

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